

## NOTICE

\$131,870,000

Minnesota Housing Finance Agency

\$39,990,000 Single Family Mortgage Bonds, 2000 Series G (Non-AMT)

\$32,475,000 Single Family Mortgage Bonds, 2000 Series H (AMT)

\$59,405,000 Single Family Mortgage Bonds, 2001 Series E (AMT)

Official Statement, dated July 12, 2001

The Official Statement, dated July 12, 2001 (the "Official Statement"), has been posted on this website as a matter of convenience. The posted version of the Official Statement has been formatted in Adobe Portable Document Format (Adobe Acrobat 4.0). Although this format should replicate the Official Statement distributed on behalf of the Agency in connection with the issuance of the bonds, the appearance may vary for a number of reasons, including electronic communication difficulties or particular user software or hardware. Using software other than Adobe Acrobat 4.0 may cause the Official Statement that you view or print to differ from the Official Statement.

The posting of the Official Statement is not an offer to sell or a solicitation of an offer to buy any Bonds. *Under no circumstances shall the Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.*

The Agency may remove this copy of the Official Statement from this website at any time.

## **NEW ISSUE AND REMARKETING**

*This Official Statement has been prepared by the Minnesota Housing Finance Agency to provide information on the Series Bonds. Selected information is presented on this cover page for the convenience of the user. To make an informed decision regarding the Series Bonds, a prospective investor should read this Official Statement in its entirety. Unless indicated, capitalized terms used on this cover page have the meanings given in the Official Statement.*



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### **Minnesota Housing Finance Agency**

**\$39,990,000 Single Family Mortgage Bonds, 2000 Series G (Non-AMT)**

**\$32,475,000 Single Family Mortgage Bonds, 2000 Series H (AMT)**

**\$59,405,000 Single Family Mortgage Bonds, 2001 Series E (AMT)**

**Original Issuance Date of Remarketed Bonds: August 14, 2000**

**Due: As shown on inside front cover**

**Remarketing Date: August 16, 2001**

**Date of Convertible Bonds: Delivery Date**

*Tax Exemption* Interest on the 2000 Series G Bonds and 2000 Series H Bonds (collectively, the “Remarketed Bonds”) and the 2001 Series E Bonds (the “Convertible Bonds” and collectively with the Remarketed Bonds, the “Series Bonds”) is not includable in gross income for federal income tax purposes or taxable net income of individuals, trusts and estates for Minnesota income tax purposes. See pages 21-23 herein for additional information, including information on the application of federal and state alternative minimum tax provisions to the Series Bonds.

*Redemption* The Remarketed Bonds are subject to optional redemption, to special redemption at par and to mandatory tender at par as set forth on pages 7-12 herein. The Convertible Bonds are subject to mandatory tender at par (with no right to retain) on July 24, 2003. The Agency may establish an earlier mandatory tender or redemption date for all or a portion of the Convertible Bonds on or after August 1, 2002, as set forth on page 7 herein.

*Security* On a parity with outstanding Bonds heretofore or hereafter issued under the Bond Resolution, by a pledge of Bond proceeds, Mortgage Loans, Investments, Revenues and other assets held under the Bond Resolution. The Series Bonds are general obligations of the Agency, payable out of any of its generally available moneys, assets or revenues. *The Agency has no taxing power. The State of Minnesota is not liable for the payment of the Series Bonds and the Series Bonds are not a debt of the State.* See “Security for the Bonds” on pages 12-14 herein.

*Interest Payment Dates* For Series Bonds, January 1 and July 1, commencing January 1, 2002, and on any redemption date or mandatory tender date.

*Denominations* \$5,000 or any integral multiple thereof.

*Closing/Settlement* For the Remarketed Bonds, August 16, 2001 through the facilities of DTC in New York, New York. For the Convertible Bonds, July 25, 2001 through the facilities of DTC in New York, New York.

*Bond Counsel* Dorsey & Whitney LLP, Minneapolis, Minnesota.

*Underwriters’ Counsel* Kutak Rock LLP, Atlanta, Georgia.

*Trustee* Wells Fargo Bank Minnesota, National Association, in Minneapolis, Minnesota.

*Book-Entry-Only System* The Depository Trust Company. See Appendix E herein.

The Series Bonds are offered, when, as and if issued, subject to withdrawal or modification of the offer without notice and to the opinion of Dorsey & Whitney LLP, Minneapolis, Minnesota, Bond Counsel, as to the validity of and tax exemption of interest on the Series Bonds.

**UBS PaineWebber Inc.**

**U.S. Bancorp Piper Jaffray Inc.**

**Dain Rauscher Incorporated**

The date of this Official Statement is July 12, 2001.

## MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND PRICES

### REMARKETED BONDS

#### 2000 SERIES G BONDS (Non-AMT)

\$1,505,000 4.25% Term Bonds Due July 1, 2008 (CUSIP 60415NDX7)  
\$2,500,000 4.40% Term Bonds Due July 1, 2009 (CUSIP 60415NDY5)  
\$2,625,000 4.50% Term Bonds Due July 1, 2010 (CUSIP 60415NDZ2)  
\$2,765,000 4.60% Term Bonds Due July 1, 2011 (CUSIP 60415NEA6)  
\$18,020,000 5.20% Term Bonds Due January 1, 2017 (CUSIP 60415NEB4)  
\$12,575,000 5.40% Term Bonds Due July 1, 2025 (CUSIP 60415NEC2)

#### 2000 SERIES H BONDS (AMT)

<u>Due</u>	<u>Principal</u>	<u>Interest</u>	<u>CUSIP</u>
January 1, 2008	<u>Amount</u>	<u>Rate</u>	
	\$880,000	4.50%	60415NEJ7
\$1,840,000	3.60%	Term Bonds Due July 1, 2003	(CUSIP 60415NED0)
\$1,995,000	3.90%	Term Bonds Due July 1, 2004	(CUSIP 60415NEE8)
\$2,085,000	4.10%	Term Bonds Due July 1, 2005	(CUSIP 60415NEF5)
\$2,175,000	4.25%	Term Bonds Due July 1, 2006	(CUSIP 60415NEG3)
\$2,275,000	4.40%	Term Bonds Due July 1, 2007	(CUSIP 60415NEH1)
\$21,225,000	5.50%	Term Bonds Due July 1, 2023	(CUSIP 60415NEK4)

### CONVERTIBLE BONDS

#### 2001 SERIES E BONDS (AMT)

\$59,405,000 3.50% Convertible Bonds Due Not Later Than July 1, 2035 (CUSIP 60415NEL2)  
(Mandatory Tender Date Not Later Than July 24, 2003)

Price of all Bonds — 100%

No dealer, broker, salesman or other person has been authorized by the Minnesota Housing Finance Agency or the Underwriters to give any information or representations, other than those contained in the Official Statement and, if given or made, such other information or representations must not be relied upon as having been an offer to buy nor shall there be any sale of the Series Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the Agency and from other sources which are believed to be reliable. The information and expressions of opinion herein are subject to change without notice and neither the delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Agency since the date hereof.

The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their respective responsibilities under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of the information.

In connection with this offering, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Series Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued.

THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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**OFFICIAL STATEMENT**  
**relating to**  
**\$131,870,000**  
**Minnesota Housing Finance Agency**  
**Single Family Mortgage Bonds,**  
**2000 Series G, 2000 Series H,**  
**and 2001 Series E**

This Official Statement (which includes the cover page, inside front cover and appendices) provides certain information concerning the Minnesota Housing Finance Agency (the "Agency"), created by Minnesota Statutes, Chapter 462A, as amended (the "Act"), and its Single Family Mortgage Bonds, 2000 Series G (the "2000 Series G Bonds"), 2000 Series H (the "2000 Series H Bonds") and 2001 Series E (the "2001 Series E Bonds" and collectively with the 2000 Series G Bonds and the 2000 Series H Bonds, the "Series Bonds"), in connection with the remarketing of the 2000 Series G Bonds and the 2000 Series H Bonds and the offering and sale of the 2001 Series E Bonds by the Agency, for the information of all who may become initial holders of such Bonds. The 2000 Series G Bonds and the 2000 Series H Bonds are sometimes referred to herein as the "Remarketed Bonds" and the 2001 Series E Bonds are sometimes referred to herein as "Convertible Bonds." The Remarketed Bonds were issued and are being remarketed pursuant to the Act, a resolution of the Agency adopted on June 3, 1982, as amended (the "Bond Resolution"), and series resolutions of the Agency adopted July 27, 2000, and supplemented on July 12, 2001. The Convertible Bonds are being issued pursuant to the Act, the Bond Resolution, and a series resolution adopted on July 12, 2001. The series resolutions adopted by the Agency with respect to the Remarketed Bonds and the Convertible Bonds are herein sometimes called the "Series Resolutions," and the Bond Resolution and the Series Resolutions are herein sometimes called the "Resolutions." The Single Family Mortgage Bonds now outstanding (in the aggregate principal amount of \$1,618,395,000 as of May 31, 2001) under the Bond Resolution (the "Outstanding Bonds") and any additional Single Family Mortgage Bonds hereafter issued pursuant to the Bond Resolution, including the Convertible Bonds, will be equally and ratably secured and are herein sometimes called the "Bonds."

The Resolutions should be referred to for the definitions of capitalized terms used herein, some of which are reproduced in this Official Statement. The summaries and references herein to the Act, the Resolutions and other documents are only outlines of certain provisions and do not purport to summarize or describe all the provisions thereof. All references herein to the Act, the Bond Resolution and the Series Resolutions are qualified in their entirety by reference to the Act and the Resolutions, copies of which are available from the Agency, and all references to the Series Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto contained in the Resolutions.

**INTRODUCTION**

The Agency is a public body corporate and politic, constituting an agency of the State of Minnesota.

The Act authorizes the Agency to issue bonds for the purpose, among other purposes, of purchasing, making or otherwise participating in the making of long-term mortgage loans to persons and families of low and moderate income for the purchase of residential housing upon the determination by the Agency that such loans are not otherwise available from private lenders upon equivalent terms and conditions.

The Series Bonds are being issued or remarketed to provide money for the Agency to be used along with certain contributed funds of the Agency, to continue its Program by purchasing Mortgage Loans made by Mortgage Lenders to low and moderate income persons for single family, owner-occupied housing within the State, by depositing amounts into the Debt Service Reserve Fund and Insurance Reserve Fund and by paying certain costs of issuance of the Series Bonds. See "Estimated Sources and Uses of Funds — Series Bonds." Although the State has appropriated amounts to the Agency for various specific purposes (see "The Agency — State Appropriations"), the Agency generally pays its general and administrative expenses from certain interest earnings and fees charged in connection with its bond-funded programs. For programs funded through appropriations, the Agency recovers the costs of administering the programs only to the extent of interest earnings on the appropriations.

Since its creation in 1971, the Agency has issued bonds to purchase single family mortgage loans, to purchase home improvement and home energy loans and to finance multifamily developments. In addition to those

programs, which are financed through the issuance of debt, the Agency finances grants and loans through State and federal appropriations and loans through its Endowment Funds and Alternative Loan Fund in the Residential Housing Finance Program Fund. Please refer to the “Restricted Fund Balances” footnote included in the notes to the financial statements included in Appendix A.

The Series Bonds are secured, on a parity with Bonds heretofore and hereafter issued under the Bond Resolution, by a pledge of all Mortgage Loans and Revenues held and received by the Agency pursuant to the Bond Resolution including the Mortgage Loans funded by the Agency from the Acquisition Fund and Revenues received by the Agency in connection therewith. See “Security for the Bonds.”

The Series Bonds are general obligations of the Agency payable from any of its moneys, assets or revenues, subject only to the provisions of other resolutions or indentures now or hereafter pledging and appropriating particular moneys, assets or revenues to particular notes or bonds, or State or federal laws or restrictions that particular funds be applied for a specified purpose. The fund balance of the General Reserve Account is legally available if needed to pay debt service on any obligations of the Agency, including the Series Bonds.

**The Agency has no taxing power. Neither the State of Minnesota nor any political subdivision thereof is or shall be obligated to pay the principal or redemption price of or interest on or purchase price with respect to the Series Bonds and neither the faith and credit nor the taxing power of the State or any political subdivision thereof is pledged to such payment.**

## THE AGENCY

### Purpose

The Agency was created in 1971 by the Act as a public body corporate and politic, constituting an agency of the State of Minnesota, in response to legislative findings that there existed in Minnesota a serious shortage of decent, safe, and sanitary housing at prices or rentals within the means of persons and families of low and moderate income, and that the then present patterns of providing housing in the State limited the ability of the private building industry and the investment industry to produce such housing without assistance and resulted in a failure to provide sufficient long-term mortgage financing for such housing.

### Structure

Under the Act, the membership of the Agency consists of the Commissioner of Trade and Economic Development, the State Auditor and five public members appointed by the Governor with the advice and consent of the Senate for terms of four years. Pursuant to the Act, each member continues to serve until a successor has been appointed. The Chairman of the Agency is designated by the Governor from among the appointed public members. Pursuant to the Act, the Vice Chairman of the Agency is the Commissioner of Trade and Economic Development.

The present members of the Agency, who serve without compensation (except for per diem allowance and expenses for members not otherwise compensated as public officers), are:

*Michael Finch*, Chairman — Term expires January 2002, Minneapolis, Minnesota - Research Program Director

*Rebecca D. Yanisch*, Vice Chair — *Ex-officio*, St. Paul, Minnesota - Commissioner of Trade and Economic Development

The Honorable *Judith Dutcher* — *Ex-officio*, St. Paul, Minnesota - State Auditor

*Marge Anderson*, Member — Term expires January 2004, Onamia, Minnesota

*Peter G. Bernier*, Member — Term expires January 2005, Squaw Lake, Minnesota

*Lee Himle*, Member — Term expires January 2003, Spring Valley, Minnesota - Insurance Agency Owner

*Marina Muñoz Lyon*, Member—Term expires January 2003, St. Paul, Minnesota - Foundation Officer.

## Staff

The staff of the Agency presently consists of approximately 185 persons, including professional staff members who have responsibilities in the fields of finance, law, mortgage underwriting, architecture, construction inspection and housing management. The Attorney General of the State of Minnesota provides legal services for the Agency.

The Commissioner is appointed by the Governor. The Act authorizes the Commissioner of the Agency to appoint such permanent and temporary employees as the Commissioner deems necessary subject to the approval of the State Commissioner of Employee Relations.

The principal officers and staff related to the Program are as follows:

*Katherine G. Hadley* — Commissioner. Ms. Hadley was appointed Commissioner in July 1994, and reappointed in January 1999. From January 1992 to the date of her appointment as Commissioner, Ms. Hadley was Deputy Commissioner of the Agency. From October 1989 to January 1992, Ms. Hadley was the Director of Intergovernmental Affairs for the Agency. From September 1980 to October 1986, Ms. Hadley was a staff attorney at Southern Minnesota Regional Legal Services specializing in employment and family law. From October 1986 to October 1989, she was a staff attorney for the Legal Services Advocacy Project engaged in legislative advocacy on a variety of employment, public benefits, juvenile court, and housing issues. Ms. Hadley has a Bachelor of Arts degree from Hampshire College, Amherst, Massachusetts, and a law degree from the University of Minnesota.

*Patricia Hippe* — Deputy Commissioner. Ms. Hippe was appointed Deputy Commissioner effective May 4, 2000. From January 1995 to the date of her appointment, Ms. Hippe was Director of Finance of the Agency. From January 1994 to January 1995, Ms. Hippe was Assistant Vice President and Trust Officer with Norwest Bank Minnesota, N.A. with responsibility for administration of taxable and tax-exempt bond issues primarily for student loan issuers. From January 1984 to January 1994, she held a variety of progressively more responsible positions with the HEAF Group, the most senior of which was Manager of Program Accounting with responsibility for student loan secondary market operations and accounting for multiple for-profit and non-profit entities. Ms. Hippe holds a Masters degree in Business Administration with a concentration in Accounting from the University of St. Thomas, St. Paul, Minnesota, a Bachelor of Science in Business Administration degree from the University of Minnesota and has successfully completed both the Certified Public Accountant and Certified Management Accountant exams.

*Mike LeVasseur* — Director of Finance of the Agency since October 2000. From February 2000 to October 2000, he was the Director of Bankruptcy and Litigation at Conseco Finance Corporation. From 1981 to 2000, he held a variety of progressively more responsible finance, administration and credit positions within the 7th Farm Credit District, most recently as Vice President of Special Assets at the St. Paul Bank for Cooperatives. Mr. LeVasseur has a Bachelor of Science degree in Business Administration from the University of Minnesota, with a Senior Accounting Certificate.

*Michael A. Haley* — Assistant Commissioner, Minnesota Homes Division since September 1980. From January 1972 to September 1980, he was Assistant Vice President of the Marquette National Bank of Minneapolis with responsibility for the Bank's residential mortgage operations which included secondary market sales and operations, business development and mortgage loan underwriting and approval. Mr. Haley has a Masters degree in Business Administration and a Bachelor of Arts degree from the University of St. Thomas, St. Paul, Minnesota. Mr. Haley also is a graduate of the Mortgage Bankers Association of America School of Mortgage Banking.

*Frances J. O'Neill* — Operations Manager of Minnesota Homes Division since July 1995. From May 1971 through June 1995, she was with the U.S. Department of Housing and Urban Development (HUD). From 1979 until 1986 she was Director of the Administration and Management Division, with responsibility for human resources, information systems and accounting. In 1986 she assumed the position of Deputy Director of the Housing Development Division, with responsibility for single family mortgage operations. Ms. O'Neill has a Bachelor of Science degree in Business Administration from Metropolitan State University.

The Agency's offices are located at 400 Sibley Street, St. Paul, Minnesota 55101; its investor relations contact is Sharon Spahn Bjostad at (651) 282-2577; and its general telephone number is (651) 296-7608. The Agency's web site address is <http://www.mhfa.state.mn.us>.

## **Financial Statements of the Agency**

Attached as Appendix A hereto are (i) the audited financial statements of the General Reserve Account and the Single Family Fund as of June 30, 2000 and 1999 and for the years then ended, together with the independent auditors' report thereon of KPMG LLP, and (ii) the unaudited financial statements of the General Reserve Account and the Single Family Fund as of and for the nine months ended March 31, 2001, which reflect, in the opinion of the Agency, all normal recurring adjustments necessary for a fair statement of the financial position and results of operations of those Funds for the period. The audited financial statements for the years ended June 30, 2000 and 1999 for all individual funds as listed in Note 2 of the financial statements in Appendix A are available upon request from the Agency.

## **Disclosure Information**

The Agency will covenant for the benefit of the Beneficial Owners of the Series Bonds to provide annually certain financial information and operating data relating to the Agency (the "Agency Annual Report") and to provide notices of the occurrence of certain enumerated events, if material. The Agency Annual Report is to be filed by the Agency no later than nine months after the close of each fiscal year with each Nationally Recognized Municipal Securities Information Repository (a "Repository"). The notices of material events, if any, are to be filed with each of the Repositories or with the Municipal Securities Rulemaking Board.

The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized below under the caption "Appendix B — SUMMARY OF CONTINUING DISCLOSURE AGREEMENT." These covenants have been made in order to assist the Underwriters in complying with SEC Rule 15c2-12(b)(5).

In addition to the Agency Annual Report required by the Continuing Disclosure Agreement, the Agency also prepares a quarterly disclosure report for its single family bond resolutions and a semi-annual disclosure report for each of its multifamily bond resolutions. The reports are available upon request from the Agency or from one of the Repositories. The Single Family Mortgage Bond Resolution Disclosure Reports are filed quarterly. The most recent report is dated as of March 31, 2001. The Agency is also committed to providing appropriate credit information as requested by the rating agencies rating the securities.

## **Board Resolution Restricted Fund Balances and Operations to Date — General Reserve Account**

In accordance with provisions of the respective bond resolutions, the Agency may transfer money from Program Funds to the General Reserve Account of the Housing Development Fund. The Agency has pledged to deposit in the General Reserve Account any such funds transferred from the Program Funds, except for any amounts as may be necessary to reimburse the State for money appropriated to restore a deficiency in any debt service reserve fund.

The Agency further covenants that it shall use the money in the General Reserve Account only for the administration and financing of programs in accordance with the policy and purpose of the Act, including reserves for the payment of bonds and of loans made from the proceeds thereof, and shall accumulate and maintain therein such a balance of funds and investments as will be sufficient for the purpose. To ensure that funds available in and available to be transferred to the General Reserve Account are preserved to provide financial security for the Agency's bondholders as covenanted in the bond resolutions, the Agency has established investment guidelines for its Board Restricted Fund Balances. The Agency determines compliance with its investment guidelines for the Board Restricted Fund Balances annually as of the last day of the Agency's fiscal year. Please refer to the "Board Restricted Fund Balances" footnote included in the notes to the financial statements included in Appendix A.

Under these guidelines, the Agency's General Reserve Account Board Restricted Fund Balance is to be maintained at a level equal to the Agency's Housing Endowment Fund requirement of two percent (2%) of loans receivable.

The Agency also established an Alternative Loan Fund within the Residential Housing Finance Bond Resolution. Within this fund, the Agency invests in a combination of cash, cash equivalents, investment securities, and loans according to the investment guidelines established by the Agency for the Housing Investment and Housing Affordability Funds. The Alternative Loan Fund is not pledged to the payment of the Residential Housing Finance Bonds, the Single Family Mortgage Bonds or any other specific debt obligations of the Agency and is



generally available to pay any debt obligations of the Agency. Loan activity related to loans financed by the Housing Investment and Housing Affordability Funds are recorded as part of the Alternative Loan Fund in the Residential Housing Finance Bond Resolution. All interfund transfers are approved by the Agency.

The following summary indicates the revenues earned, funds transferred to and from the General Reserve Account and the expenses paid from such account for the periods indicated (in thousands):

	Nine Months Ended		
	March 31, 2001	Fiscal Year Ended June 30,	
	<u>(unaudited)</u>	<u>2000</u>	<u>1999</u>
Revenues and other additions to restricted fund balance:			
Fees earned (1) .....	\$3,815	\$ 3,100	\$2,222
Interest earned on investments .....	1,856	2,309	2,319
Unrealized gain (loss) on investment securities, net	5,501	(3,265)	(341)
Administrative reimbursement from funds (2)(3)...	<u>13,275</u>	<u>17,408</u>	<u>13,330</u>
	<u>24,447</u>	<u>19,552</u>	<u>17,530</u>
Expenses and other reductions to restricted fund balance:			
Transfer of assets between funds (4) .....	—	4,494	6,636
Salaries and benefits .....	7,954	9,405	8,862
Other general operating .....	<u>3,768</u>	<u>5,453</u>	<u>4,559</u>
	<u>11,722</u>	<u>19,352</u>	<u>20,057</u>
Additions over (under) reductions .....	12,725	200	(2,527)
Restricted fund balance, beginning of year .....	<u>34,922</u>	<u>34,722</u>	<u>37,249</u>
Restricted fund balance, end of year .....	<u>\$47,647</u>	<u>\$34,922</u>	<u>\$34,722</u>

- (1) Fees earned consist primarily of fees collected in conjunction with the administration of the low income housing tax credit program and certain non-Agency financed Section 8 developments.
- (2) Reimbursement from bond funds are transferred to the General Reserve Account in accordance with the Agency's Affordable Housing Plan at 60 basis points of adjusted assets. Adjusted assets are defined as total assets plus the reserve for loan loss plus unearned discounts on loans minus premiums on loans.
- (3) Transfers from appropriated accounts consist of the portion of direct and indirect costs of administering the programs funded by the appropriations which are recovered from the interest earnings on appropriations.
- (4) Earnings from bond funds may be transferred to the General Reserve Account to the extent permitted by any resolution or indenture securing bonds of the Agency. See Note 7 — Restricted Fund Balances included in the notes to the financial statements in Appendix A for additional information.

## State Appropriations

Over the years, the State Legislature has enacted several laws making amendments to the Act and appropriating funds to the Agency which are to be used for low interest loans, grants, programs for low and moderate income persons and families, innovative development, debt service and other housing related program costs. The State Legislature has appropriated funds to the Agency for its programs in every biennium since 1975. Appropriations to the Agency for the bienniums beginning July 1, 1997, 1999 and 2001 have totaled \$392,365,000.

The appropriations are not available to pay debt service on the Bonds except as otherwise set forth in this Official Statement.

## Agency Indebtedness

The principal amount of bonds and notes of the Agency which are outstanding at any time (excluding the principal amount of any bonds and notes refunded) is limited to \$2,400,000,000. The following table lists the principal amounts of indebtedness, all of which are general obligations of the Agency, outstanding as of May 31, 2001:

	Number of Series (1)	Bonds Maturing (1)	Original Principal Amount (in thousands)	Principal Amount Outstanding (in thousands)
Housing Development Bonds .....	3	2001-2027	\$ 117,995	\$ 66,475
Rental Housing Bonds .....	18	2001-2031	371,130	265,785
Residential Housing Finance Bonds .....	2	2001-2017	96,770	56,935
Single Family Mortgage Bonds .....	104	2001-2033	<u>2,322,185</u>	<u>1,618,395</u>
Total Debt Outstanding .....			<u>\$2,908,080</u>	<u>\$2,007,590</u>

(1) Does not include the original principal amount of any series of bonds that have been, as of May 31, 2001, defeased or paid in full, whether at maturity or earlier redemption.

The payment of principal of and interest on obligations of the Agency as shown above may be made, if necessary, from the General Reserve Account.

## ESTIMATED SOURCES AND USES OF FUNDS — SERIES BONDS

The estimated sources and uses of funds related to the Series Bonds are as follows:

### Sources:

Principal Amount of Series Bonds .....	\$131,870,000
Agency Contribution .....	<u>3,855,138</u>
Total Sources of Funds .....	<u>\$135,725,138</u>

### Uses:

Deposit to Acquisition Fund to:	
Purchase Mortgage Loans .....	\$130,266,582
Pay Costs of Issuance .....	100,000
Deposit to the Debt Service Reserve Fund .....	3,956,100
Deposit to the Insurance Reserve Fund .....	595,000
Underwriters' Compensation .....	<u>807,456</u>
Total Uses of Funds .....	<u>\$135,725,138</u>

Upon the original issuance of the 2000 Series G Bonds and 2000 Series H Bonds, proceeds thereof were deposited in the Acquisition Fund and the Debt Service Reserve Fund. Proceeds received from the Remarketed Bonds are to be used to purchase upon mandatory tender an equivalent principal amount of Outstanding 2000 Series G Bonds and 2000 Series H Bonds and, subsequent to such purchase, an amount of proceeds of such Bonds received upon original issuance would become available to fund the Program. Proceeds of the Convertible Bonds deposited into the Acquisition Fund will not be used to make or purchase Mortgage Loans until such time as the Convertible Bonds are remarketed or refunded on a long-term basis.

## DESCRIPTION OF THE SERIES BONDS

### General

The Series Bonds are issuable only as fully registered bonds and will initially be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), who will act as securities depository for each series of the Series Bonds. Wells Fargo Bank Minnesota, National Association, Minneapolis, Minnesota is to serve as Trustee. Interest on the Series Bonds is payable by moneys wired by the Trustee to DTC, or its nominee, as registered owner of such Bonds, which interest is to be redistributed by DTC.

Principal of the Series Bonds is payable at maturity or earlier redemption upon surrender at the principal corporate trust office of the Trustee. See “Appendix E—Book-Entry-Only System.”

The Series Bonds are remarketed or issuable in the denominations of \$5,000 or any integral multiple thereof. For every exchange or transfer of Series Bonds, whether temporary or definitive, the Agency or the Trustee may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer.

The Remarketed Bonds mature on the dates and in the amounts set forth on the inside front cover hereof. The Remarketed Bonds bear interest from the date of remarketing, payable semiannually thereafter on January 1 and July 1 of each year, commencing January 1, 2002, at the rates set forth on the inside front cover hereof until payment of the principal or redemption price on such Bonds. Interest on the Remarketed Bonds shall be calculated on the basis of a year of 360 days composed of twelve 30-day months.

The Convertible Bonds will be dated, as originally issued, as of their date of original delivery and will bear interest from the date of original issue to July 24, 2003 (a “Mandatory Tender Date”), at the interest rate set forth on the inside front cover hereof, payable semiannually on January 1 and July 1, commencing January 1, 2002, and on such Mandatory Tender Date. The Agency may establish a prior Mandatory Tender Date with respect to all or part of the Convertible Bonds upon 15 days’ prior written notice; provided, however, that any such Mandatory Tender Date with respect to all or part of the Convertible Bonds shall be no earlier than August 1, 2002. Interest on the Convertible Bonds shall be calculated on the basis of a year of 360 days composed of twelve 30-day months.

### **Sinking Fund Redemption**

The 2000 Series G Bonds with a stated maturity of July 1, 2008 are subject to mandatory redemption in part on January 1, 2008 in the principal amount of \$300,000 at a price equal to said principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account. If not otherwise redeemed, \$1,205,000 principal amount will become due on the stated maturity date of July 1, 2008.

The 2000 Series G Bonds with a stated maturity of July 1, 2009 are subject to mandatory redemption in part on January 1, 2009 in the principal amount of \$1,235,000 at a price equal to said principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account. If not otherwise redeemed, \$1,265,000 principal amount will become due on the stated maturity date of July 1, 2009.

The 2000 Series G Bonds with a stated maturity of July 1, 2010 are subject to mandatory redemption in part on January 1, 2010 in the principal amount of \$1,295,000 at a price equal to said principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account. If not otherwise redeemed, \$1,330,000 principal amount will become due on the stated maturity date of July 1, 2010.

The 2000 Series G Bonds with a stated maturity of July 1, 2011 are subject to mandatory redemption in part on January 1, 2011 in the principal amount of \$1,360,000 at a price equal to said principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account. If not otherwise redeemed, \$1,405,000 principal amount will become due on the stated maturity date of July 1, 2011.

The 2000 Series G Bonds with a stated maturity of January 1, 2017 are subject to mandatory redemption in part on January 1, 2012, and on each July 1 and January 1 thereafter to and including July 1, 2016, at their principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account, on the dates and in the principal amounts as follows:

<u>Date</u>	<u>Principal Amount</u>	<u>Date</u>	<u>Principal Amount</u>
January 1, 2012	\$1,435,000	January 1, 2015	\$1,675,000
July 1, 2012	1,470,000	July 1, 2015	1,720,000
January 1, 2013	1,510,000	January 1, 2016	1,765,000
July 1, 2013	1,550,000	July 1, 2016	1,810,000
January 1, 2014	1,590,000	January 1, 2017	1,860,000*
July 1, 2014	1,635,000		

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\*Stated maturity.

The 2000 Series G Bonds with a stated maturity of July 1, 2025 are subject to mandatory redemption in part on January 1, 2018, and on each July 1 and January 1 thereafter to and including January 1, 2025, at their principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account, on the dates and in the principal amounts as follows:

<u>Date</u>	<u>Principal Amount</u>	<u>Date</u>	<u>Principal Amount</u>
January 1, 2018	\$600,000	January 1, 2022	\$ 800,000
July 1, 2018	575,000	July 1, 2022	820,000
January 1, 2019	595,000	January 1, 2023	845,000
July 1, 2019	605,000	July 1, 2023	865,000
January 1, 2020	620,000	January 1, 2024	1,040,000
July 1, 2020	640,000	July 1, 2024	1,060,000
January 1, 2021	660,000	January 1, 2025	1,080,000
July 1, 2021	680,000	July 1, 2025	1,090,000*

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\*Stated maturity.

The 2000 Series H Bonds with a stated maturity of July 1, 2003 are subject to mandatory redemption in part on January 1, 2003 in the principal amount of \$875,000 at a price equal to said principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account. If not otherwise redeemed, \$965,000 principal amount will become due on the stated maturity date of July 1, 2003.

The 2000 Series H Bonds with a stated maturity of July 1, 2004 are subject to mandatory redemption in part on January 1, 2004 in the principal amount of \$985,000 at a price equal to said principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account. If not otherwise redeemed, \$1,010,000 principal amount will become due on the stated maturity date of July 1, 2004.

The 2000 Series H Bonds with a stated maturity of July 1, 2005 are subject to mandatory redemption in part on January 1, 2005 in the principal amount of \$1,030,000 at a price equal to said principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account. If not otherwise redeemed, \$1,055,000 principal amount will become due on the stated maturity date of July 1, 2005.

The 2000 Series H Bonds with a stated maturity of July 1, 2006 are subject to mandatory redemption in part on January 1, 2006 in the principal amount of \$1,075,000 at a price equal to said principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account. If not otherwise redeemed, \$1,100,000 principal amount will become due on the stated maturity date of July 1, 2006.

The 2000 Series H Bonds with a stated maturity of July 1, 2007 are subject to mandatory redemption in part on January 1, 2007 in the principal amount of \$1,125,000 at a price equal to said principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account. If not otherwise redeemed, \$1,150,000 principal amount will become due on the stated maturity date of July 1, 2007.

The 2000 Series H Bonds with a stated maturity of July 1, 2023 are subject to mandatory redemption in part on July 1, 2017, and on each July 1 and January 1 thereafter to and including January 1, 2023, at their principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account, on the dates and in the principal amounts as follows:

<u>Date</u>	<u>Principal Amount</u>	<u>Date</u>	<u>Principal Amount</u>
July 1, 2017	\$2,075,000	January 1, 2021	\$1,660,000
January 1, 2018	1,475,000	July 1, 2021	1,655,000
July 1, 2018	1,550,000	January 1, 2022	1,645,000
January 1, 2019	1,585,000	July 1, 2022	1,665,000
July 1, 2019	1,625,000	January 1, 2023	1,710,000
January 1, 2020	1,630,000	July 1, 2023	1,310,000*
July 1, 2020	1,640,000		

\*Stated maturity.

### **Special Redemption**

*Non-Origination.* The Remarketed Bonds of each series are subject to special redemption, at the option of the Agency, prior to maturity, at any time, in whole or in part, at a redemption price equal to par plus accrued interest, without premium, from moneys representing proceeds of such Remarketed Bonds not used to purchase Mortgage Loans and transferred to the Redemption Fund from the Acquisition Fund and any allocable amounts held in the Debt Service Reserve Fund and Insurance Reserve Fund transferred to the Redemption Fund. In the event that any Remarketed Bonds of a series are to be redeemed as a result of non-origination, such Bonds shall be selected by lot from such maturities of the Remarketed Bonds of the series as shall be determined by the Agency.

The Technical and Miscellaneous Revenue Act of 1988 added Section 143(a)(2)(d) to the Code, effective for bonds issued after December 31, 1988. Section 143(a)(2)(d) requires that, with respect to an issue of bonds, proceeds of the issue required to be used to make mortgage loans be so used within 42 months of the date of issue, or be used to redeem bonds of the issue prior to the expiration of the 42 month period (a requirement sometimes referred to as the "42 Month Rule"). The 42 Month Rule applies to "sale proceeds" of an issue deposited into a mortgage acquisition fund or "transferred proceeds" of a "new money" issue which were not used to make mortgage loans, but does not apply to "transferred proceeds" or "replacement proceeds" of an issue deposited into a mortgage acquisition fund as a result of a prepayment refunding. Hence, the 42 Month Rule is generally applicable only where the issue of bonds in question is wholly or partly a "new money" issue or a non-origination refunding of a "new money" issue. Since the Remarketed Bonds are not a "new money" issue or a non-origination refunding of a "new money" issue, the 42 Month Rule is not applicable to the Remarketed Bonds.

*Excess Revenues.* Any moneys on deposit in the Revenue Fund attributable to Excess Revenues may, in the Agency's discretion and subject to the requirements of the Resolutions, be applied to the redemption, at any time, at a redemption price equal to par plus accrued interest, without premium, of Outstanding Bonds under the Bond Resolution (including the Remarketed Bonds but not the Convertible Bonds) from such series, maturities and Sinking Fund Installments as the Agency may select at its option.

As used herein, "Excess Revenues" shall mean the Revenues, including prepayments, on deposit in the Revenue Fund received in excess of (i) the maturing principal and Sinking Fund Installments and any required mandatory redemptions, together with interest from time to time and payable, on Bonds Outstanding under the Bond

Resolution, (ii) amounts needed to maintain the Debt Service Reserve Fund and the Insurance Reserve Fund at their respective Requirements, and (iii) amounts required by the Agency to pay fees and other costs in connection with the Bonds associated with maintaining the Program.

The Technical and Miscellaneous Revenue Act of 1988 added Section 143(a)(2)(A)(iv) to the Code, effective for bonds issued after December 31, 1988. Section 143(a)(2)(A)(iv) requires that, with respect to an issue of bonds, principal repayments (including prepayments) received after a date 10 years from the date of issue of the bonds be used to pay and redeem bonds of that particular issue (a requirement sometimes referred to as the "10 Year Rule"). Hence, in the case of a "new money" issue of bonds, principal repayments received during the first 10 years following the date of issue can be recycled into new mortgage loans, either directly, or indirectly through a refunding of bonds of the issue or another issue, but, after the 10 year date, no further recycling or principal repayment refundings are permitted and the principal repayments must be devoted to paying or redeeming bonds of the "new money" issue. Where the issue of bonds is itself a refunding issue, in whole or in part, the 10 Year Rule is applied by measuring the 10 year period from the dates of issue of the various issues of bonds being refunded (or the dates of issue of the original bonds in a chain of refundings), and the principal repayments, when received, must be allocated, for purposes of applying the 10 Year Rule, among the issues of bonds refunded. Varying percentages of the principal repayments, therefore, will have different 10 Year Rule effective dates. For the Remarketed Bonds, the following percentages of scheduled payments and prepayments of principal of Mortgage Loans purchased with the proceeds of the Remarketed Bonds received on or after the following dates, are required to be applied no later than the close of the first semi-annual period beginning after the date of receipt to the retirement of the Remarketed Bonds, through payment thereof at maturity or redemption:

<u>Dates</u>	<u>Percentage</u>
August 16, 2001 through December 27, 2003	94.25%
December 28, 2003 through September 15, 2004	98.00
September 16, 2004 through November 6, 2005	99.00
November 7, 2005 and thereafter	100.00

Scheduled payments and prepayments of principal of Mortgage Loans purchased with the proceeds of the Remarketed Bonds need not be applied to the retirement of the Remarketed Bonds upon receipt of an opinion of Bond Counsel that failure to comply with the 10 Year Rule will not adversely affect the exclusion of interest on the Remarketed Bonds from gross income of the owners thereof for federal income tax purposes.

#### **Optional Redemption of Remarketed Bonds**

The Remarketed Bonds of each series with stated maturities after January 1, 2012 are also subject to redemption at the option of the Agency as a whole or in part on any date on or after January 1, 2012 from any amounts available to the Agency for that purpose, and at a redemption price equal to the principal amount so redeemed, plus interest accrued to the date of redemption, without premium.

#### **Mandatory Tender of Certain Remarketed Bonds Upon Certain Events**

To the extent interest rates decline, and particularly to the extent interest rates available on mortgages decline in the State, potential applicants for Mortgage Loans may be dissuaded from applying to the Agency for such Mortgage Loans, and the likelihood of a special redemption as described under "Special Redemption—*Non-Origination*" would be increased. In lieu of such redemption, the Agency has provided for the mandatory tender of the Remarketed Bonds selected by the Agency for purchase at par (plus accrued interest if the mandatory tender date is not an interest payment date), or, at the option of the registered owner, exchange for a Remarketed Bond of the same series and maturity and bearing interest as described below.

*Mandatory Tender of Certain Remarketed Bonds.* Pursuant to the Series Resolutions, a principal amount of Remarketed Bonds as determined by the Agency (but not in excess of the principal amount of unexpended proceeds of such Remarketed Bonds on deposit in the Acquisition Fund and any allocable amounts held in the Debt Service Reserve Fund and Insurance Reserve Fund) may be subject to mandatory tender for purchase on any date (the "Purchase Date"). On the Purchase Date, the Remarketed Bonds subject to mandatory tender shall either be purchased by the Agency and remarketed at an adjusted interest rate or rates or, if the registered owner so elects,

exchanged for an equal amount of Remarketed Bonds of the same series and maturity bearing interest at the adjusted rate or rates.

*Determination of Preliminary Adjusted Interest Rate.* Upon making certain determinations as to the inability to purchase Mortgage Loans at the mortgage rates established with respect to the Remarketed Bonds, the Agency may appoint a remarketing agent (the “Remarketing Agent”) and provide the Remarketing Agent with a schedule of Remarketed Bonds of one or more series, and one or more maturities within a series, determined by the Agency to be subject to purchase on mandatory tender (the “Tender Bonds”) and request the Remarketing Agent to determine, as of a stated date selected by the Agency not less than five days nor more than ten days from the date of request, the interest rates (the “Preliminary Adjusted Rates”) at which such Tender Bonds could be remarketed at par plus accrued interest. The aggregate principal amount of Tender Bonds set forth on the schedule may not exceed the unexpended proceeds of the Remarketed Bonds held in the Acquisition Fund and any allocable amounts held in the Debt Service Reserve Fund and Insurance Reserve Fund. If the yield on the Tender Bonds at the Preliminary Adjusted Rates is at least 0.50% per annum lower than the yield on the Tender Bonds when issued, and certain other conditions relating to compliance with applicable federal tax law are met, the Agency may elect by written notice to the Trustee to call Tender Bonds for mandatory purchase on a date not less than 45 days after the date of such notice. Within each maturity designated by the Agency, the Trustee shall select at random the Remarketed Bonds to be designated as Tender Bonds.

*Notice of Mandatory Tender.* Not less than 35 days prior to a Purchase Date, notice of the mandatory tender or exchange shall be given by the Trustee to the registered owners of Tender Bonds. (See “Appendix E—Book-Entry-Only System.”) Such notice shall state, in substance: (i) the Purchase Date; (ii) the Preliminary Adjusted Rates for applicable Tender Bonds; (iii) that the registered owners of such Tender Bonds will no longer be entitled to receive interest on such Bonds after the Purchase Date, except in the case of Tender Bonds retained at the election of the registered owner (which Tender Bonds shall bear interest at the Final Adjusted Rates, as defined below, from and after the Purchase Date); (iv) that each Tender Bond shall be purchased or deemed purchased on the Purchase Date unless the registered owner properly directs the Agency and Trustee not to purchase such Bond on the Purchase Date; and (v) that notwithstanding a direction not to purchase, the Tender Bonds may be redeemed by the Agency on the Purchase Date under certain circumstances as set forth in the Series Resolutions. Such notice is to set forth the procedures to be followed by a registered owner who wishes to retain all or a portion (in whole multiples of \$5,000) of such registered owner’s Tender Bonds. Any such election to retain all or a portion of the Tender Bonds shall be irrevocable. Failure to follow the specified procedures shall result in a purchase or deemed purchase of such registered owner’s Tender Bonds.

*Final Adjusted Interest Rates.* Not more than 30 nor less than 15 days prior to the Purchase Date, the Remarketing Agent shall determine and certify to the Trustee and the Agency the adjusted interest rate each maturity of Tender Bonds shall bear from and after the Purchase Date (the “Final Adjusted Rates”). Said Final Adjusted Rates shall be those rates which, in the judgment of the Remarketing Agent, would permit the sale of the applicable Tender Bonds at par on the date of determination.

*Mandatory Tender or Redemption.* Any Tender Bond called for mandatory tender on the applicable Purchase Date and not delivered to the Trustee for purchase by 11:30 a.m., New York Time, on the applicable Purchase Date shall be deemed tendered and a Remarketed Bond of the same series bearing interest at an adjusted rate may be issued in place thereof to the purchaser thereof. Any Tender Bond deemed purchased shall not bear interest from and after the Purchase Date and the holder thereof shall have no rights under the Resolutions other than the right to receive the purchase price thereof.

Upon the occurrence of certain events, the Agency may determine to redeem all Tender Bonds on the Purchase Date, notwithstanding the election by some registered owners to retain all or a portion of their Tender Bonds. The purchase of Tender Bonds is contingent upon satisfaction of certain arbitrage requirements of federal tax law, compliance with cash flow and other requirements of the Bond Resolution, maintenance of credit ratings on the Bonds outstanding under the Bond Resolution, and a determination that, given the final Adjusted Rates, Mortgage Loans can be effectively originated and purchased to carry out the Program. If one or more of these prerequisites cannot be satisfied, the Agency may redeem all Tender Bonds on the Purchase Date without additional notice at a price of par plus accrued interest, without premium.

## **Mandatory Tender or Redemption of Convertible Bonds Prior to Conversion**

All of the Convertible Bonds are subject to mandatory tender (*without any right to retain*) on any Mandatory Tender Date. See “Description of the Series Bonds — General.” The Agency may also redeem any Convertible Bonds on a Mandatory Tender Date with respect to such Bonds, at a price of par, plus accrued interest, without premium.

On a Mandatory Tender Date, any Convertible Bonds subject to mandatory tender or redemption on such date are to be purchased or redeemed, as applicable, at a price of par plus interest accrued and unpaid to such date, without premium. Any Convertible Bonds required to be tendered may, at the option of the Agency, be converted to bear interest at a fixed rate to their maturity.

## **General Provisions**

Except as otherwise provided in the Series Resolutions, any Series Bonds to be purchased or redeemed shall be purchased or redeemed only upon receipt by the Trustee of a certificate signed by an officer authorized by the Agency and stating the following: (a) the Series of Bonds to be purchased or redeemed; (b) the maturities within such Series from which Bonds are to be purchased or redeemed; and (c) the principal amount and maximum price of Bonds within such maturities to be purchased or redeemed. If less than all Bonds of a series and maturity are to be redeemed, the Bonds of that series and maturity to be redeemed shall be selected by lot, unless a different order of priority is specified by the Series Resolutions. The Agency shall not at any time cause Series Bonds to be purchased or redeemed if this would have any material adverse effect on its ability to pay when due the principal of and interest on the Bonds Outstanding after such purchase or redemption.

The Trustee is required to mail a copy of the notice, by registered or certified mail, to the registered owner of any Series Bond called for redemption at least 30 days prior to the redemption date; said registered owner to be determined from the registry books as of the last business day of the month preceding the month in which such notice is mailed.

## **SECURITY FOR THE BONDS**

The Bonds, including the Series Bonds, are secured as provided in the Bond Resolution by a pledge and grant of a security interest in (a) all proceeds of the sale of the Bonds (other than proceeds deposited in trust for the retirement of outstanding bonds and notes), (b) all Mortgage Loans and Investments made or purchased from such proceeds, (c) all Revenues (as defined in the Bond Resolution), and (d) all money, investments, and other assets and income held in and receivables of Funds established by or pursuant to the Bond Resolution. The Bonds, including the Series Bonds, are general obligations of the Agency, payable out of any of its moneys, assets or revenues, subject only to the provisions of other resolutions or indentures now or hereafter pledging and appropriating particular moneys, assets or revenues to particular notes or bonds, or State or federal laws or restrictions that particular funds be applied for a specified purpose. The pledge and security interests granted by the Bond Resolution shall be for the equal benefit, protection and security of Holders of all outstanding Bonds.

*The Agency has no taxing power. The State of Minnesota is not liable for the payment of the Bonds, and the Bonds are not a debt of the State.*

## **Projected Revenue Certificate**

The Bond Resolution requires that the Agency file a Projected Revenue Certificate with the Trustee as of July 1 in each year and within 30 days thereafter and prior to the issuance of any series of Bonds, and permits a revised Certificate to be filed at any time directed by the Agency. The Projected Revenue Certificate must show Revenues (including principal, interest and prepayments on Mortgage Loans, and estimated investment income on all moneys held in the Program) anticipated to be derived from the Program in the current and each future Fiscal Year, sufficient to make required fund transfers and debt service payments on the Bonds in each such year, all to be based on the estimates and assumptions, and subject to the terms and conditions, more fully set forth in the definition “Projected Revenue Certificate” herein. If any Projected Revenue Certificate fails to show an excess of Revenues over required fund transfers and debt service in the current or any future Fiscal Year, the Agency is required to deposit on that date from any amounts properly available in its General Reserve Account or other funds not pledged under the Bond Resolution, an amount which when deposited and utilized as set forth in a revised Projected Revenue Certificate will be at least equal to such required fund transfers and debt service. As set forth



more fully in “Appendix C — Summary of Certain Provisions of the Bond Resolution — Revenue Fund,” the Agency may withdraw from the Program at the end of each Fiscal Year an amount which is not required to produce Revenues equal to debt service and required fund transfers in the current and all future Fiscal Years as set forth in the Projected Revenue Certificate, provided that, subsequent to such transfer, total assets, exclusive of moneys in the Insurance Reserve Fund, exceeds total liabilities by at least 3 percent.

## **Revenues**

The Agency has covenanted in the Bond Resolution to collect and deposit, or cause to be collected and deposited, all Revenues with the Trustee, and to punctually pay or cause to be paid when due, from said Revenues, the principal of and interest on all Outstanding Bonds.

When Revenues are greater than the amount necessary to pay maturing principal of and interest on the Bonds, the excess may, to the extent permitted by applicable federal tax law, be used to make or purchase additional Qualified Mortgage Loans or to redeem Bonds, including the Remarketed Bonds but excluding the Convertible Bonds and certain other outstanding series of short-term Bonds. See “Description of the Series Bonds — Special Redemption.” If Revenues are less than the amount necessary to pay maturing principal of the Bonds, then either the Agency will provide the amount necessary for such payment from (a) the General Reserve Account of the Agency, (b) the Acquisition Fund, (c) the Redemption Fund (but not from amounts required to pay Bonds previously called for redemption), (d) the Insurance Reserve Fund, or (e) the proceeds of refunding Bonds, or the Trustee will withdraw the necessary amount from the Debt Service Reserve Fund.

## **Debt Service Reserve Fund**

The Bond Resolution creates and establishes a Debt Service Reserve Fund and provides that the Debt Service Reserve Requirement as of any date shall not be less than 3 percent of the principal amount of the Outstanding Bonds. The Debt Service Reserve Fund balance will not be less than 3 percent of the principal amount of Outstanding Bonds upon issuance of the Series Bonds.

The balance in the Debt Service Reserve Fund on May 31, 2001, was \$48,600,964, which was at least equal to the Debt Service Reserve Fund Requirement.

The Act provides that the Agency may create and establish one or more debt service reserve funds for the security of its bonds. The moneys held in or credited to a debt service reserve fund shall be used solely for the payment of principal of bonds of the Agency as the same mature, the purchase of such bonds, the payment of interest thereon or the payment of any premium required when such bonds are redeemed before maturity, provided that the moneys in such fund shall not be withdrawn therefrom at any time in such amount as would reduce the amount reasonably necessary for the purposes of the fund, except for the purpose of paying principal and interest due on the bonds secured by the fund for the payment of which other moneys of the Agency are not available. The Agency shall not issue any additional bonds or notes which are secured by a debt service reserve fund if the amount in that debt service reserve fund or any other debt service reserve fund at the time of such issuance does not equal or exceed the minimum amount required by the resolution creating such fund unless the Agency shall deposit in each such fund at the time of such issuance from the proceeds of the bonds or otherwise an amount which, together with the amount then in the fund, will be no less than the minimum amount so required. The Act further provides that:

In order to assure the payment of principal and interest on bonds and notes of the agency and the continued maintenance of all debt service reserve funds created and established therefor, the agency shall annually determine and certify to the governor, on or before December 1, (a) the amount, if any, then needed to restore each debt service reserve fund to the minimum amount required by the resolution or indenture establishing the fund, not exceeding the maximum amount of principal and interest to become due and payable in any subsequent year on all bonds or notes which are then outstanding and secured by such fund; and (b) the amount, if any, determined by the agency to be needed in the then immediately ensuing fiscal year, with other funds pledged and estimated to be received during that year, for the payment of the principal and interest due and payable in that year on all then outstanding bonds and notes secured by a debt service reserve fund the amount of which is then less than the minimum amount agreed. The governor shall include and submit to the legislature, in the budget for the following fiscal year, or in a supplemental budget if the regular budget for that year has previously been approved, the amounts certified by the agency . . . .

In the opinion of Bond Counsel and counsel to the Agency, the State Legislature is legally authorized *but is not legally obligated* to appropriate such amounts.

### **Insurance Reserve Fund**

The Bond Resolution creates and establishes an Insurance Reserve Fund to be used for the purpose of paying that portion of the claim for loss with respect to any Defaulted Loan which is not paid by a public or private insuring agency. As of any particular date of calculation, the Insurance Reserve Requirement is the sum of amounts, if any, established for each series of Bonds by the respective series resolutions.

The balance in the Insurance Reserve Fund on May 31, 2001 was \$8,871,920, which was at least equal to the Insurance Reserve Requirement.

### **Additional Bonds**

The Bond Resolution permits the issuance of additional Bonds, upon the adoption of a series resolution, without limitation as to amount, to provide funds for the purpose of financing the making or purchase of Qualified Mortgage Loans and, in addition, to refund outstanding Bonds or other obligations of the Agency. No additional series of Bonds may be issued except upon verification by the Trustee that an amount equal to the Debt Service Reserve Requirement effective upon issuance of such Bonds will be on deposit in the Debt Service Reserve Fund and an amount equal to the Insurance Reserve Requirement effective upon issuance of such Bonds will be on deposit in the Insurance Reserve Fund, and that the estimated Revenues set forth in a Projected Revenue Certificate are in excess of required fund transfers and debt service on the Bonds in each Fiscal Year as set forth in the Projected Revenue Certificate.

Any additional Bonds issued under the Bond Resolution will be on parity with the Series Bonds and all other outstanding Bonds and will be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Bond Resolution.

### **State Pledge Against Impairment of Contracts**

The State in the Act has pledged to and agreed with the Bondholders that it will not limit or alter the rights vested in the Agency to fulfill the terms of any agreements made with them or in any way impair the rights and remedies of the Bondholders until the Bonds, together with the interest thereon and on any unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of such Bondholders, are fully met and discharged.

## **THE AGENCY MORTGAGE PROGRAM**

### **Procedures for Origination and Purchase**

The following provides a general description of the Agency's Program, which is subject to change from time to time.

#### *Application*

The Agency's Program provides funds for the purchase by the Agency of newly originated Qualified Mortgage Loans at a price and bearing interest at rates to be established on the basis of the interest cost of the Bonds. From the proceeds of the Remarketed Bonds, the Agency intends to purchase Mortgage Loans on terms resulting in an effective rate sufficient to pay the principal of and interest on the Remarketed Bonds, the costs of servicing the Mortgage Loans and other expenses of the Program. The Agency may require that the seller or buyer pay discount points to reduce the overall interest rate on the Mortgage Loans, provide adequate compensation to Mortgage Lenders, and defray Agency operation costs and expenses. Proceeds of the Convertible Bonds deposited into the Acquisition Fund will not be used to make or purchase Mortgage Loans until such time as the Convertible Bonds are remarketed or refunded on a long-term basis.

In connection with the Program, the Agency has published *The MHFA Mortgage Program Procedural Manual* (the "Manual") which sets forth the guidelines and procedures for participation in the Program and the requirements for origination of Mortgage Loans, including provisions for compliance with the requirements of

applicable federal law. The Agency responds to inquiries by interested lenders by sending them information regarding the requirements a lender must satisfy to be eligible to participate in the Program. Each Mortgage Lender that meets Program requirements and participates in the Program either executes or has executed a lender commitment agreement (the "Agreement") which incorporates the Manual by reference. Generally, Mortgage Lenders that participate in the Program receive no advance commitment of funds from the Agency (see exceptions in "Special Assistance Programs" below). Rather, on the day funds become available, Mortgage Lenders may fax the Agency for an individual commitment of Mortgage Loan funds on a case-by-case basis as each application is taken and initially screened by the Mortgage Lender. The Mortgage Loan funds are then to be reserved for each specific case for a specific term. Should a specific case ultimately be declined or cancelled, the funds are available for use by another eligible borrower and Mortgage Lender. The amount of funds that may be used by an individual participating Mortgage Lender is to be determined by the Mortgage Loan demand experienced by the Mortgage Lender.

Upon execution of the Agreement by the Agency, each Mortgage Lender headquartered in the HUD-identified Metropolitan Statistical Areas of Duluth-Superior, MN-WI, Fargo-Moorhead, ND-MN, Grand Forks, ND-MN, LaCrosse, WI-MN, Minneapolis-St. Paul, MN-WI, Rochester, MN and St. Cloud, MN must pay an initial fee of \$5,000 to participate in the Program and an annual renewal fee of \$2,500. Mortgage Lenders headquartered in the balance of the State must pay an initial participation fee of \$2,000 and an annual renewal fee of \$1,000, unless payment of such fees is specifically modified or waived by the Agency. Mortgage Lenders are not required to pay a reservation fee upon initial telecopied reservation of an individual commitment. If the Agency has not purchased a Mortgage Loan pursuant to an individual commitment after 120 days where an existing home is to be financed or after 180 days if a newly constructed home is to be financed, the Agency, at its option, may charge and, if so charged, the Mortgage Lender must agree to pay an extension fee to maintain the individual commitment for a specified, extended period of time. Participation fees and, if charged, unrefunded extension fees are to be deposited in the General Reserve Account and are not specifically pledged to the payment of the Bonds.

#### *Qualified Borrowers*

The Agency has established the maximum gross income for eligible borrowers under the Program based upon applicable federal law, the interest rate to be charged on the Mortgage Loan and Agency policy objectives. The maximum gross income of an eligible borrower under the Program (other than as may be permitted under "Special Assistance Programs" and "Agency Bond Issuance on Behalf of Local Governments" below) is currently as follows:

<u>Persons in Household</u>								
<u>Location of Mortgaged Property</u>	<u>One</u>	<u>Two</u>	<u>Three</u>	<u>Four</u>	<u>Five</u>	<u>Six</u>	<u>Seven</u>	<u>Eight</u>
11-County Twin Cities								
Metropolitan Area	\$41,900	\$47,850	\$53,850	\$59,800	\$64,600	\$69,400	\$74,200	\$78,950
Olmsted County	40,150	45,850	51,600	57,300	61,900	66,500	71,100	75,650
Balance of State	35,000	40,000	45,000	50,000	54,000	58,000	62,000	66,000

The Agency will apply the limitations set forth in Section 143(f) of the Internal Revenue Code of 1986, as amended (the "Code") to applicants for Mortgage Loans from the proceeds of the Series Bonds. The Agency may revise said income limits for the Program and for Homeownership Assistance Payments from time to time to conform with State and federal law and Agency policy objectives.

At the time the Mortgage Loan is made, the borrower must certify his or her intention to occupy the mortgaged property as his or her principal residence.

Credit underwriting must be in compliance with Federal Housing Administration (the "FHA"), the Veterans Administration (the "VA"), the USDA Rural Development (formerly the Rural Housing and Community Development Service) ("USDA Rural Development") and/or mortgage industry accepted underwriting standards. For loans which are not insured or guaranteed by FHA, VA or USDA Rural Development, the Agency emphasizes Federal National Mortgage Association or Federal Home Loan Mortgage Corporation ("FNMA/FHLMC") standards in the Manual.

Currently, all borrowers may be eligible for assistance for entry costs, monthly principal and interest payments, equity contributions or all three forms of subsidy, if needed for borrower qualification. See “Homeownership Assistance Fund Loans” below.

### *Qualified Mortgage Loans*

Under the Bond Resolution, the unpaid principal amount of Mortgage Loans made or purchased from the Acquisition Fund must not exceed, at the time of purchase, 75 percent of the Market Value of the Home subject to the Mortgage unless it is insured or guaranteed in one of the following ways: (1) if the Mortgage Loan is to be insured or guaranteed by the FHA, VA, USDA Rural Development or another agency or instrumentality, of the United States which has similar powers to insure or guarantee Mortgage Loans, the amount may be the maximum permitted under the regulations of such agency or instrumentality, as modified to comply with the requirements of applicable federal law; or (2) if the Agency is issued a mortgage insurance policy by a private mortgage insurer qualified to provide insurance on mortgages purchased by the Federal Home Loan Mortgage Corporation or the Federal National Mortgage Corporation, or a similar federal agency or instrumentality, under which the insurer, if it requests the Agency to retain title, may pay a specified insured percentage of the claim, then the maximum amount of the Mortgage Loan is a percentage of the Market Value of the Home equal to 75 percent plus said insured percentage; or (3) if the Mortgage Loan is not initially guaranteed or insured in the manner set forth in either of subsections (1) or (2) above, the Agency, at the time it purchases the Mortgage Loan, shall either (i) transmit to the Trustee for deposit into the appropriate account in the Insurance Reserve Fund an amount equal to the difference between the amount of the uninsured Mortgage Loan and 75 percent of the Market Value or (ii) shall certify to the Trustee that the balance then existing in said account in the Insurance Reserve Fund is not less than the amount otherwise required by the preceding clause (i) to be on deposit therein.

Pursuant to recently enacted federal legislation, Mortgagors, with respect to Mortgage Loans originated after July 29, 1999, will have a right to cancel any private mortgage insurance policy insuring such loans when the outstanding principal amount of the Mortgage Loan has been reduced or is scheduled to have been reduced to 80 percent or less of the value of the Home at the time the Mortgage Loan was originated. The Mortgagor’s right to cancel the policy is subject to certain conditions, including (i) that the Mortgagor has a good payment history with respect to the Mortgage Loan, (ii) that the Mortgagor has satisfied any requirement of the Agency that the value of the Home has not declined below the original value of the Home and (iii) that the Mortgagor certifies that the Mortgagor’s equity in the Home is unencumbered by a subordinate lien. Any requirements for private mortgage insurance will automatically terminate when the scheduled principal balance of the Mortgage Loan, based on the original amortization schedule for the Mortgage Loan, is reduced to 78 percent or less of the value of the Home at the time of origination, provided the Mortgage Loan is current. The legislation also requires that Mortgagors, with respect to Mortgage Loans originated prior to July 29, 1999, must be notified by the servicers on an annual basis that they may also have a right to cancel any private mortgage insurance policy insuring those loans with the consent of the Agency or in accordance with state law. The Agency’s existing policy has been to permit the cancellation of private mortgage insurance when the outstanding balance of the Mortgage Loan has been reduced to 75 percent or less of the value of the Home at the time of origination, assuming a good payment history.

Qualified Mortgage Loans may be purchased from (1) Mortgage Lenders including any bank, savings bank, mutual savings bank, savings and loan association, building and loan association organized under the laws of Minnesota or the United States or non-profit licensed by the State of Minnesota, and any mortgagee or lender approved or certified by the Secretary of Housing and Urban Development or by the Administrator of Veterans Affairs, or (2) any agency or instrumentality of the United States or the State.

Under the Bond Resolution the Agency must take or require a Servicer to take all measures, actions and proceedings reasonably necessary and deemed by it to be most effective to recover the balance due on a Defaulted Mortgage Loan, including the curing of the default by the Mortgagor, foreclosure of the Mortgage, acceptance of a conveyance in lieu of foreclosure, sale of the Mortgage, renting or selling the Home, collection of any applicable mortgage insurance or guaranty, and preservation of the title to and value of the Home pending recovery of the balance of the Defaulted Mortgage Loan. See “State Laws Affecting Foreclosure” in Appendix D.

### **Qualified Real Property**

Pursuant to the Manual, Mortgage Loans may be purchased for (1) residential property in Minnesota on which is located an owner-occupied one- or two-family dwelling, or (2) an owner-occupied residential unit in a condominium, townhouse or planned unit development.

The Agency has established maximum purchase prices under the Program pursuant to the requirements of applicable federal law. For the Remarketed Bonds (other than with respect to variations permitted under “Special Assistance Programs” and “Agency Bond Issuance on Behalf of Local Governments” below), maximum purchase prices for both one- and two-family homes currently are:

<b>If the property to be mortgaged is located in:</b>	<b>The Minnesota Mortgage Program</b>	
	<b>Existing Residences</b>	<b>New Residences</b>
11-County Twin Cities Area	\$175,591	Not Allowed
Aitkin County	\$103,408	\$103,408
Becker County	\$ 92,402	\$ 92,402
Beltrami County	\$ 84,400	\$ 84,400
Benton County	\$ 98,501	\$ 98,501
Blue Earth County	\$105,691	\$105,691
Brown County	\$ 87,119	\$ 87,119
Carlton County	\$ 92,193	\$ 92,193
Cass County	\$ 96,632	\$ 96,632
Clay County	\$ 91,168	\$ 91,168
Cook County	\$101,811	\$101,811
Crow Wing County	\$123,081	\$123,081
Dodge County	\$102,442	\$102,442
Douglas County	\$113,115	\$113,115
Fillmore County	\$ 83,723	\$ 83,723
Goodhue County	\$128,138	\$128,138
Houston County	\$ 98,108	\$ 98,108
Hubbard County	\$105,223	\$105,223
Itasca County	\$ 96,632	\$ 96,632
Kanabec County	\$ 81,893	\$ 81,893
Kandiyohi County	\$ 97,935	\$ 97,935
Lake County	\$ 86,451	\$ 86,451
Le Sueur County	\$121,414	\$121,414
Lyon County	\$ 83,954	\$ 83,954
McLeod County	\$112,971	\$112,971
Meeker County	\$ 99,732	\$ 99,732
Mille Lacs County	\$ 98,414	\$ 98,414
Morrison County	\$ 82,361	\$ 82,361

If the property to be mortgaged is located in:	The Minnesota Mortgage Program	
	Existing Residences	New Residences
Nicollet County	\$117,930	\$117,930
Olmsted County	\$129,313	\$129,313
Otter Tail County	\$ 88,621	\$ 88,621
Pennington County	\$103,114	\$103,114
Pine County	\$ 88,285	\$ 88,285
Polk County	\$ 83,576	\$ 83,576
Rice County	\$133,299	\$133,299
Sibley County	\$ 86,091	\$ 86,091
St. Louis County	\$101,811	\$101,811
Stearns County	\$ 98,501	\$ 98,501
Steele County	\$109,155	\$109,155
Wabasha County	\$113,941	\$113,941
Waseca County	\$ 91,279	\$ 91,279
Winona County	\$105,055	\$105,055
Balance of State	\$ 77,540	\$ 77,540

The Agency may revise said maximum purchase prices from time to time to conform with applicable State and federal law and Agency policy objectives. New construction is currently not permitted to be financed in the 11-county Twin Cities metropolitan area, except in connection with the special assistance programs and Agency bond issuance on behalf of local governments described below.

Under federal law, except in limited circumstances, no newly constructed 2-family residences may be financed, as such properties must have been previously used as a 2-family residence for at least five years prior to the date of closing.

### **Special Assistance Programs**

Notwithstanding the above, the Agency may set aside the proceeds of the Remarketed Bonds under the Program for special assistance program components to meet specified housing needs identified by the Agency. Under such program components, the Agency may commit proceeds to such entities as Mortgage Lenders, units of local government or local housing and redevelopment authorities, nonprofit housing providers, builders/developers, and other entities that, in turn, will provide housing finance opportunities that address a specified housing need to qualified borrowers purchasing qualified real property.

All Mortgage Loans originated under special assistance program components shall be qualified mortgage loans as described above. Under certain circumstances, the Agency may elect to directly originate such Mortgage Loans through its own staff.

Both borrowers and properties under special assistance program components are to be in compliance with FHA/VA/USDA Rural Development and/or mortgage industry accepted underwriting standards. The Agency may elect to either reduce or increase the income and/or house price limits provided herein incident to a specific assistance program component, but in all circumstances, the Agency will assure that the applicable limits meet the requirements of federal law.

## **Agency Bond Issuance on Behalf of Local Governments**

State law provides the process and procedures by which applicable units of local government may request an allotment and subsequent allocation of qualified mortgage bond authority from a statewide housing pool established for this purpose. In 1990, the State Legislature passed a law which enables applicable units of local government to assign their qualified mortgage bond authority to the Agency which may then issue bonds on behalf of local governments up to the amount of allocation assigned to the Agency.

Under the terms by which the Agency has agreed to accept the assignment of bond allocation, the Agency is to set aside the amount of funds allocated for each unit of local government for the exclusive use of said local government in the geographic area designated by same for a six month period. During the set-aside period, Mortgage Lenders designated by the unit of local government may reserve Mortgage Loans for specific cases for a specific term in accordance with the Manual. Should any funds remain unreserved at the end of the six-month set-aside period, remaining funds are then to be available for Mortgage Loans to be reserved by any other participating units of local government for an additional two-month period. At the end of the two-month period, any unreserved funds are available to the Agency for general program purposes.

Pursuant to State law governing the allotment and allocation of qualified mortgage bond authority, applicable units of local government may establish income and/or house price limits somewhat higher than the limits otherwise provided for the Program. However, the Agency is to assure that the applicable limits meet requirements of federal law.

All Mortgage Loans originated pursuant to Agency bond issuance on behalf of units of local government shall be qualified Mortgage Loans as described above. Both borrowers and properties are to be in compliance with FHA, VA, USDA Rural Development and/or mortgage industry accepted underwriting standards. However, participating units of local government do have the authority to set-aside funds to meet locally identified housing goals or address special program purposes within their geographic areas.

The Agency intends to use a portion of the proceeds of the Remarketed Bonds to meet its obligations to set-aside funds for local government units.

## **Homeownership Assistance Fund Loans**

The Agency has established a Homeownership Assistance Fund created with appropriations by the State Legislature from which Homeownership Assistance Fund loans are made. In addition, the Agency has established a Homeownership Endowment Fund within the Residential Housing Finance Bond Resolution which is also a source of funding for these loans. A Homeownership Assistance Fund loan is a second mortgage loan made by the Agency to the Mortgagor for one of three purposes: (i) to assist in the payment of entry costs (i.e., required down payment and closing costs) on the home (up to a maximum of \$3,500); (ii) to assist in the payment of monthly principal and interest on the Mortgage Loan (up to a maximum of \$1,440); or (iii) to provide an equity contribution loan in the amount necessary to reduce the Mortgage Loan payments to an affordable level (up to a maximum of \$10,000). Eligible Mortgagors may receive either entry cost assistance or payment assistance separately or together, but may only receive the equity contribution loan after application of the first two forms of assistance fail to qualify them for the Mortgage Loan. At the time the Mortgage Loan is made, the Agency agrees to provide assistance and the Mortgagor agrees to repay such loan upon sale, transfer, refinancing or when the property is no longer occupied by the Mortgagor.

Mortgagors who meet program income requirements and who do not have sufficient cash for down payment and closing costs are eligible for entry cost assistance of up to \$3,500. Mortgagors that wish to receive monthly payment assistance or an equity contribution loan must attend qualified homebuyer classroom instruction for at least six hours before the Mortgage Loan is closed. This requirement does not apply to Mortgagors that receive only entry cost assistance.

Assistance for monthly principal and interest payments is also available to the Mortgagor at the program income limits previously noted. The initial monthly assistance payment (made directly by the Agency to the Servicer) ranges from a maximum of \$60 (\$1,440 cumulative) to a minimum of \$20 (\$240 cumulative) based upon actual need for the assistance by the Mortgagor. Monthly assistance payments decrease by \$20 each year until the assistance ceases. In making a Mortgage Loan, the monthly assistance payments will be taken into account in determining the ability of the Mortgagor to pay principal of and interest on the Mortgage Loan over its term.

Mortgagors whose housing debt ratio is greater than 28% of their total income and who will receive the maximum monthly payment assistance of \$60 per month may also be eligible for an equity contribution loan in an amount necessary to reduce their housing debt ratio to 28%, but not to exceed \$10,000. The equity contribution loan is available to Mortgagors who qualify under the program income limits and obtain loans under the Agency's Community Activity Set Aside Program. The equity contribution loan is a deferred loan which is due on sale, transfer or refinancing or when the property is no longer occupied by the Mortgagor.

Mortgage Loans made or purchased from the proceeds of subsequent series of Bonds may or may not include Homeownership Assistance. Neither the Homeownership Assistance Fund nor the Homeownership Endowment Fund have been pledged to or are available for the payment of principal or interest on the Bonds. The Agency, however, has covenanted in the Bond Resolution to set-aside an amount sufficient with anticipated investment income therefrom to make all disbursements of assistance agreed to be made available with respect to any Mortgage Loan.

### **Target Areas**

Pursuant to applicable federal law, including particularly Sections 143(h) and 143(j) of the Code, target areas have been established for the Program. Target areas consist of certain census tracts in the State in which 70 percent of the families have an annual income of 80 percent or less of the statewide median income or areas determined by the State and approved by the Secretary of the Treasury of the United States and the Secretary of the United States Department of Housing and Urban Development to be areas of chronic economic distress (the "Target Areas"). However, applicable federal law does not require the Agency to make available any specific amount of the Remarketed Bond proceeds for the purchase of Mortgage Loans financing residences located in Target Areas. The requirements of applicable federal law with respect to Target Areas will not be applied to the proceeds of the Convertible Bonds until such time as the Convertible Bonds are remarketed or refunded on a long-term basis.

### **Servicing**

Under the Program, the Agency has set forth requirements for the servicing and accounting of Mortgage Loans in a Servicing Manual. Servicing may be granted to Mortgage Lenders that demonstrate adequate technical capability to the Agency's satisfaction. Each Servicer must maintain at all times a fidelity bond and an errors and omissions policy issued by a company having a current rating in Best's Insurance Reports of A/AAA or better. Servicers are required to ensure that mortgagors maintain on each home a hazard insurance policy providing fire and extended coverage equal to or greater than that customary in the geographic area in which the home is located. Servicers are required to advise the Agency if a home is exposed to a risk not otherwise covered by the hazard insurance policy and the Agency may require additional coverage.

The Agency requires a number of reports from its Servicers. Among those to be submitted is a monthly reconciliation report together with a supporting loan trial balance. In addition, a settlement remittance report, designed to summarize amounts due the Agency and to reconcile weekly remittances to the final amount due for the reporting period, is due on a monthly basis. The Agency has established specific requirements for Servicers regarding the procedures to be followed in cases involving delinquencies. In addition to a monthly report requirement, Servicers are required, by following the Agency's procedures, to bring a delinquency current in the shortest possible time. The Agency may, at any time, terminate a servicing agreement and re-assign servicing. Under the Program, Servicers will receive as compensation a monthly servicing fee not to exceed 1/12 of 3/8 of 1 percent of the outstanding principal amount of Mortgage Loans.

### **Applicable Federal Law Mortgage Eligibility Requirements**

Applicable federal law imposes significant limitations on the financing of mortgage loans on owner occupied one- to four-family residences with the proceeds of a qualified mortgage bond issue, such as the Series Bonds. See "Tax Exemption and Related Considerations."

### **Mortgage Loan Portfolio**

As of March 31, 2001, the Agency had outstanding loans receivable of \$1,146,702,000, gross, from the proceeds of the Outstanding Bonds. An additional \$41,867,000 aggregate principal amount of mortgage loans were being processed at March 31, 2001. As of March 31, 2001, excluding the proceeds of short-term bonds and notes,



there were approximately \$53,275,000 of uncommitted proceeds from previous bond sales available for commitment.

The Agency's combined delinquency and foreclosure experience is currently below that for the United States as most recently published in the quarterly National Delinquency Survey by the Mortgage Bankers Association of America, as adjusted by the Agency to reflect the mix of mortgage guaranty and insurance types present in the Agency's portfolio.

## **OTHER PROGRAMS**

In addition to the Program funded from the proceeds of the Bonds, the Agency finances other housing programs which provide loans for the purchase or improvement of single family housing and the acquisition, construction or rehabilitation of multifamily rental housing in the State of Minnesota. The assets devoted to these programs are briefly described in the Notes to the Financial Statements in Appendix A.

## **TAX EXEMPTION AND RELATED CONSIDERATIONS**

### **General**

The Series Bonds are subject to the requirements of Sections 143 and 148 and certain other sections of the Code.

The loan eligibility requirements of Section 143 applicable to Mortgage Loans funded in whole or in part with proceeds of the Series Bonds are that (1) the Home on which the Mortgage Loan is made is a single family residence which, at the time the Mortgage Loan is made, is or can reasonably be expected within a reasonable time to become the principal residence of the Mortgagor and is located in the State; (2) except in certain limited circumstances, no part of the proceeds is to be used to acquire or replace any existing mortgage; (3) the "acquisition cost" of the Home meets certain limits; (4) the family income of the Mortgagor meets certain limits; (5) with certain exceptions, the Mortgagor shall not have had a present ownership interest in his principal residence during the preceding three years; and (6) the Mortgage Loan shall not be assumable unless the requirements of (1), (3), (4) and (5) above are met at the time of the assumption. An issue is treated as meeting the loan eligibility requirements of Section 143 if (1) the issuer in good faith attempted to meet all of the requirements before the loans were executed; (2) 95 percent or more of the proceeds of the issue used to finance loans were devoted to residences which met all such requirements at the time the loans were executed or assumed; and (3) any failure to comply with the loan eligibility requirements is corrected within a reasonable period after such failure is first discovered.

The Code also imposes additional requirements to maintain the exclusion from gross income for federal income tax purposes of interest on the Series Bonds. For example, the Code limits the amount of the costs of issuance which may be paid from the proceeds of the Series Bonds and limits the size of reserve funds established with the proceeds of the Series Bonds. In addition, the Code imposes, on a continuing basis, limitations on investment of the proceeds of the Series Bonds and requires earnings on non-mortgage investments in excess of the yield on the Series Bonds to be rebated to the United States.

The Agency has included provisions in the Resolutions, the Manual and other relevant documents, and has established procedures (including receipt of certain affidavits and warranties from Mortgage Lenders, Mortgagors and others respecting the mortgage eligibility requirements) in order to ensure compliance with the requirements of the Code which must be met subsequent to the date of original issuance of the Series Bonds. The Agency has covenanted in the Resolutions to do all things necessary to assure that interest on the Series Bonds will be excludable from federal gross income and not to permit any proceeds of the Series Bonds to be used in a manner which violates any of the restrictions contained in applicable federal law. In the opinion of Bond Counsel, the Manual and the Agency's covenants in the Resolutions establish procedures under which the requirements of applicable federal law can be met. Noncompliance with the requirements in the Manual and Resolutions may cause interest on the Series Bonds to become includable in the federal gross income of the owners thereof retroactive to the date of issue.

Assuming compliance with certain covenants in the Manual and Resolutions intended to assure compliance with the Code and with the procedures established by the Agency, in the opinion of Dorsey & Whitney LLP, Bond Counsel, under existing laws, regulations, rulings and decisions, interest on the Series Bonds is not includable in gross income of the owners thereof for federal income tax purposes.

The Code imposes an alternative minimum tax with respect to individuals and corporations on alternative minimum taxable income. *In the opinion of Bond Counsel, interest on the 2000 Series H Bonds and 2001 Series E Bonds, but not the 2000 Series G Bonds, will be treated as a preference item for purposes of calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the 2000 Series G Bonds will be included in adjusted current earnings for purposes of computing federal alternative minimum taxes imposed on corporations.*

Prospective purchasers of the Series Bonds should also be aware that (i) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the Series Bonds, (ii) interest on the Series Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code, (iii) interest on the Series Bonds may be included in the net investment income of foreign insurance companies for purposes of computing the tax imposed by Section 842(b) of the Code, (iv) passive investment income, including interest on the Series Bonds, may be subject to federal income taxation under Section 1375 of the Code for Subchapter S corporations that have accumulated earnings and profits at the close of the taxable year if greater than 25 percent of the gross receipts of such Subchapter S corporation is passive investment income, and (v) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest on the Series Bonds.

In addition, in the opinion of Bond Counsel, interest on the Series Bonds is not includable in the taxable net income of individuals, trusts and estates for Minnesota income tax purposes. *Interest on the 2000 Series H Bonds and the 2001 Series E Bonds, but not the 2000 Series G Bonds, is includable in income for purposes of calculating the Minnesota alternative minimum tax applicable to individuals, trusts and estates.* Interest on the Series Bonds is includable in the income of financial institutions and corporations for purposes of the Minnesota franchise tax.

The above summary of possible indirect tax consequences is not exhaustive. All purchasers of the Series Bonds, particularly purchasers that are corporations (including Subchapter S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, foreign insurance companies, banks, thrifts or other financial institutions, or certain recipients of Social Security and Railroad Retirement benefits, should consult their tax advisors regarding other possible federal and state income tax consequences of ownership of the Series Bonds.

### **Certain State Tax Legislation**

The 1995 State Legislature enacted a statement of intent, codified as Minnesota Statutes, Section 289A.50, subdivision 10, that interest on obligations of Minnesota governmental units and Indian tribes be included in the net income of individuals, trusts and estates for Minnesota income tax purposes if a court determines that Minnesota's exemption of such interest unlawfully discriminates against interstate commerce because interest on obligations of governmental issuers in other states is so included. This provision applies to taxable years that begin during or after the calendar year in which any such court decision becomes final, irrespective of the date upon which the obligations were issued. No similar legislation was proposed or approved during the 1996, 1997, 1998, 1999, 2000 or 2001 legislative sessions. The Agency is not aware of any judicial decision holding that a state's exemption of interest on its own bonds or those of its political subdivisions or Indian tribes, but not of interest on the bonds of other states or their political subdivisions or Indian tribes, unlawfully discriminates against interstate commerce or otherwise contravenes the United States Constitution. Nevertheless, the Agency cannot predict the likelihood that interest on the Series Bonds would become taxable (for Minnesota income tax purposes) under this Minnesota statutory provision.

### **LEGAL MATTERS**

The validity of and the tax exemption of interest on the Series Bonds are subject to the opinion of Dorsey & Whitney LLP, Minneapolis, Minnesota, Bond Counsel. The respective opinions of Bond Counsel will be provided in substantially the forms set forth in Appendix F attached hereto. Certain legal matters will be passed upon for the Underwriters by their counsel, Kutak Rock LLP, Atlanta, Georgia.

## **FINANCIAL ADVISOR**

The Agency has appointed Evensen Dodge, Inc., Minneapolis, Minnesota, to serve as financial advisor to the Agency on matters related to the remarketing and issuance, as applicable, of the Series Bonds.

## **UNDERWRITERS**

The Remarketed Bonds (except for the 2000 Series G Bonds maturing July 1, 2025 and the 2000 Series H Bonds maturing July 1, 2023) are being purchased, and the Convertible Bonds are being purchased, by the Underwriters, for which UBS PaineWebber Inc., U.S. Bancorp Piper Jaffray Inc. and Dain Rauscher Incorporated are acting as Managers. The Underwriters are to be paid a fee of \$620,616.23 with respect to the remarketing of such Remarketed Bonds and are to be paid a fee of \$186,839.87 with respect to the offering of the Convertible Bonds. The Underwriters may offer and sell such Series Bonds to certain dealers and certain dealer banks at prices lower than the public offering prices stated on the inside front cover hereof.

The 2000 Series G Bonds maturing July 1, 2025 and the 2000 Series H Bonds maturing July 1, 2023 are being directly placed by the Agency and are not being purchased or offered by the Underwriters.

## **MISCELLANEOUS**

This Official Statement is submitted in connection with the remarketing of the Remarketed Bonds and the offering of the Convertible Bonds and may not be reproduced or used, as a whole or in part, for any other purposes. Any statement made in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are set forth as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Agency and the purchasers or holders of any of the Series Bonds.

The execution and delivery of this Official Statement have been duly authorized by the Agency.

## **MINNESOTA HOUSING FINANCE AGENCY**

By: KATHERINE G. HADLEY  
Authorized Officer

Dated: July 12, 2001.

**APPENDIX A**  
**FINANCIAL STATEMENTS**

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## INDEPENDENT AUDITORS' REPORT

To the Members of the  
Minnesota Housing Finance Agency:

We have audited the accompanying balance sheets of the General Reserve Account and the Single Family Fund, together the Funds, of the Minnesota Housing Finance Agency (the Agency) as of June 30, 2000 and 1999 and the related statements of revenues and expenses and changes in restricted fund balances and cash flows for the years then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements of the Funds referred to above present fairly, in all material respects, the financial position of the Funds of the Minnesota Housing Finance Agency as of June 30, 2000 and 1999, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Minneapolis, Minnesota  
August 24, 2000

**MINNESOTA HOUSING FINANCE AGENCY**

**BALANCE SHEETS  
(for specified funds)**

(in thousands)

	<b>General Reserve Account</b>			<b>Single Family</b>		
	<b>March 31, 2001 (unaudited)</b>	<b>June 30, 2000</b>	<b>June 30, 1999</b>	<b>March 31, 2001 (unaudited)</b>	<b>June 30, 2000</b>	<b>June 30, 1999</b>
<b>ASSETS</b>						
Cash and cash equivalents, net.....	\$ 67,178	\$ 15,208	\$ 4,166	\$ 534,520	\$ 600,454	\$ 688,002
Investment securities, net.....	85,365	122,308	132,553	14,146	15,032	24,542
Loans receivable, net.....	-	-	-	1,134,615	1,090,897	1,064,140
Interest receivable on loans.....	-	-	-	5,907	5,567	6,194
Interest receivable on investments.....	1,312	2,354	2,170	9,282	1,964	8,217
Mortgage insurance claims receivable..	-	-	-	443	1,049	1,542
Real estate owned.....	-	-	-	611	507	497
Other assets.....	1,147	1,402	1,043	4	9	-
Total Assets.....	<u>\$ 155,002</u>	<u>\$ 141,272</u>	<u>\$ 139,932</u>	<u>\$ 1,699,528</u>	<u>\$ 1,715,479</u>	<u>\$ 1,793,134</u>
<b>LIABILITIES AND RESTRICTED FUND BALANCES</b>						
Liabilities:						
Bonds payable, net.....	\$ -	\$ -	\$ -	\$ 1,577,893	\$ 1,576,365	\$ 1,655,983
Interest payable.....	-	-	-	23,507	42,622	45,828
Accounts Payable and other liabilities.....	1,564	1,644	1,881	4,336	6,455	4,610
Interfund payable (receivable).....	(73)	(1,603)	2,363	2,276	2,128	1,629
Funds held for others.....	105,864	106,309	100,966	-	-	-
Total Liabilities	<u>107,355</u>	<u>106,350</u>	<u>105,210</u>	<u>1,608,012</u>	<u>1,627,570</u>	<u>1,708,050</u>
Restricted fund balances:						
Bond Resolution Restricted.....	-	-	-	91,516	87,909	85,084
Board Resolution Restricted.....	47,647	34,922	34,722	-	-	-
Total restricted fund balances.....	<u>47,647</u>	<u>34,922</u>	<u>34,722</u>	<u>91,516</u>	<u>87,909</u>	<u>85,084</u>
Total liabilities and restricted fund balances.....	<u>\$ 155,002</u>	<u>\$ 141,272</u>	<u>\$ 139,932</u>	<u>\$ 1,699,528</u>	<u>\$ 1,715,479</u>	<u>\$ 1,793,134</u>

See accompanying notes to financial statements.

**MINNESOTA HOUSING FINANCE AGENCY**  
**STATEMENTS OF REVENUES AND EXPENSES AND**  
**CHANGES IN RESTRICTED FUND BALANCES**  
**(for specified funds)**  
**(in thousands)**

	<b>General Reserve Account</b>			<b>Single Family</b>		
	<b>Nine Months Ended March 31, 2001 (unaudited)</b>	<b>June 30, 2000</b>	<b>June 30, 1999</b>	<b>Nine Months Ended March 31, 2001 (unaudited)</b>	<b>June 30, 2000</b>	<b>June 30, 1999</b>
Revenues:						
Interest earned on loans.....	\$ -	\$ -	\$ -	\$ 58,063	\$ 75,323	\$ 79,516
Interest earned on investments.....	1,856	2,309	2,319	24,198	29,378	30,257
Fees earned.....	3,815	3,100	2,222	-	-	-
Realized gains on sale of investment securities, net.....	-	-	-	34	199	2,071
Unrealized gains (losses) on securities, net.....	5,501	(3,265)	(341)	899	(332)	(3,462)
Total revenues.....	11,172	2,144	4,200	83,194	104,568	108,382
Expenses:						
Interest.....	-	-	-	69,844	89,843	97,255
Loan administration and trustee fees.....	-	-	-	3,142	4,202	4,418
Salaries and benefits.....	7,954	9,405	8,862	-	-	-
Other general operating.....	3,768	5,453	4,559	-	-	-
Provisions for loan losses.....	-	-	-	194	74	89
Total expenses.....	11,722	14,858	13,421	73,180	94,119	101,762
Revenues over (under) expenses.....	(550)	(12,714)	(9,221)	10,014	10,449	6,620
Other changes:						
Administrative reimbursement from (to) funds.....	13,275	17,408	13,330	(6,407)	(8,161)	(8,083)
Transfer of assets between funds.....	-	(4,494)	(6,636)	-	-	-
Contributions to program funds.....	-	-	-	-	537	2,262
Net changes in restricted fund balances.....	12,725	200	(2,527)	3,607	2,825	799
Restricted Fund Balances:						
Restricted fund balances, beginning of period .....	34,922	34,722	37,249	87,909	85,084	84,285
Restricted fund balances, end of period.....	<u>\$ 47,647</u>	<u>\$ 34,922</u>	<u>\$ 34,722</u>	<u>\$ 91,516</u>	<u>\$ 87,909</u>	<u>\$ 85,084</u>

See accompanying notes to financial statements.



**MINNESOTA HOUSING FINANCE AGENCY**  
**STATEMENTS OF CASH FLOWS**  
**(for specified funds)**  
**(in thousands)**

	<b>General Reserve Account</b>			<b>Single Family</b>		
	<b>Nine Months Ended March 31, 2001 (unaudited)</b>	<b>June 30, 2000</b>	<b>June 30, 1999</b>	<b>Nine Months Ended March 31, 2001 (unaudited)</b>	<b>June 30, 2000</b>	<b>June 30, 1999</b>
Cash flows from operating activities:						
Principal repayments on loans.....	\$ -	\$ -	\$ -	\$ 93,769	\$ 123,054	\$ 146,399
Investment in loans.....	-	-	-	(139,859)	(154,693)	(87,605)
Interest received on loans.....	-	-	-	57,195	74,560	78,902
Interest transferred to funds held for others.....	(4,911)	(6,016)	(5,938)	-	-	-
Fees received.....	3,815	3,100	2,222	-	-	-
Salaries, benefits and vendor payments.....	(11,802)	(15,095)	(13,442)	(3,229)	(4,483)	(5,935)
Deposits into funds held for others.....	24,231	37,311	33,652	-	-	-
Disbursements made from funds held for others.....	(24,676)	(31,968)	(41,274)	-	-	-
Interfund transfers and other assets.....	1,279	(2,183)	(412)	153	490	800
Net cash provided (used) by operating activities.....	(12,064)	(14,851)	(25,192)	8,029	38,928	132,561
Cash flows from noncapital financing activities:						
Proceeds from sale of bonds.....	-	-	-	272,830	345,850	390,990
Principal repayment on bonds.....	-	-	-	(271,545)	(425,425)	(282,945)
Interest paid on bonds and notes.....	-	-	-	(87,423)	(89,845)	(93,589)
Financing costs paid related to bonds issued.....	-	-	-	(1,293)	(2,674)	(1,627)
Agency contribution to program funds.....	-	-	-	-	537	2,262
Administrative reimbursement from funds.....	13,275	17,408	13,330	(6,407)	(8,161)	(8,083)
Transfer of cash between funds.....	506	(6,636)	(5,000)	-	-	-
Premium paid on redemption of bonds.....	-	-	-	-	(573)	(629)
Net cash provided (used) by noncapital financing activities.....	13,781	10,772	8,330	(93,838)	(180,291)	6,379
Cash flows from investing activities:						
Investment in real estate owned.....	-	-	-	(389)	(825)	(970)
Interest received on investments.....	7,353	7,923	8,520	14,785	38,096	28,794
Proceeds from sale of mortgage insurance claims/real estate owned...	-	-	-	3,665	7,010	10,246
Proceeds from maturity, sale or transfer of investment securities.....	42,900	64,680	51,500	4,097	24,374	23,098
Purchase of investment securities.....	-	(57,482)	(42,743)	(2,283)	(14,840)	(19,804)
Purchase of loans between funds.....	-	-	-	-	-	43,358
Net cash provided (used) by investing activities.....	50,253	15,121	17,277	19,875	53,815	84,722
Net increase (decrease) in cash and cash equivalents.....	51,970	11,042	415	(65,934)	(87,548)	223,662
Cash and cash equivalents:						
Beginning of period .....	15,208	4,166	3,751	600,454	688,002	464,340
End of period.....	\$ 67,178	\$ 15,208	\$ 4,166	\$ 534,520	\$ 600,454	\$ 688,002

See accompanying notes to financial statements.

**MINNESOTA HOUSING FINANCE AGENCY**

**STATEMENTS OF CASH FLOWS (continued)**  
**(for specified funds)**  
**(in thousands)**

	<b>General Reserve Account</b>			<b>Single Family</b>		
	<b>Nine Months Ended March 31, 2001 (unaudited)</b>	<b>June 30, 2000</b>	<b>June 30, 1999</b>	<b>Nine Months Ended March 31, 2001 (unaudited)</b>	<b>June 30, 2000</b>	<b>June 30, 1999</b>
Revenues over (under) expenses.....	\$ (550)	\$ (12,714)	\$ (9,221)	\$ 10,014	\$ 10,449	\$ 6,620
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:						
Amortization of discounts and fees on loans.....	-	-	-	(391)	(459)	(459)
Realized (gains) losses on sale of securities, net.....	-	-	-	(34)	(199)	(2,071)
Unrealized losses (gains) on securities, net.....	(5,501)	3,265	341	(899)	332	3,462
Provisions for loan losses.....	-	-	-	194	74	89
Capitalized interest on loans and real estate.....	-	-	-	(205)	(435)	(703)
Decrease (increase) in loans receivable, excluding loans transferred between funds.....	-	-	-	(46,090)	(31,639)	58,794
Decrease (increase) in interest receivable on loans.....	-	-	-	(272)	131	548
Interest earned on investments.....	(1,856)	(2,309)	(2,319)	(24,198)	(29,378)	(30,257)
Interest transferred to funds held for others.....	(4,911)	(6,016)	(5,938)	-	-	-
Interest expense on bonds and notes.....	-	-	-	69,844	89,843	97,255
Decrease in accounts payable.....	(80)	(237)	(21)	(87)	(281)	(1,517)
(Increase) decrease in interfund payable, affecting operating activities only.....	1,024	(1,824)	(1,065)	148	499	789
Increase (decrease) in funds held for others.....	(445)	5,343	(7,622)	-	-	-
Other.....	255	(359)	653	5	(9)	11
Total adjustments	(11,514)	(2,137)	(15,971)	(1,985)	28,479	125,941
Net cash provided (used) by operating activities.....	\$ (12,064)	\$ (14,851)	\$ (25,192)	\$ 8,029	\$ 38,928	\$ 132,561

See accompanying notes to financial statements.

**MINNESOTA HOUSING FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Information for the period after June 30, 2000 is unaudited)**

**1. Nature of Business and Fund Structure**

The Minnesota Housing Finance Agency (the Agency or MHFA) was created in 1971 by an Act of the Minnesota Legislature. The Agency was established to facilitate the construction and rehabilitation of housing in Minnesota for families of low- and moderate-income by providing for mortgage loans, development loans and technical assistance to qualified housing sponsors to be used for construction and rehabilitation of housing. The Agency is a component unit of the state of Minnesota and receives appropriations from the State Legislature, substantially all of which are used to make loans or grants under specified non-bond-financed programs.

The Agency is authorized to issue bonds and other obligations to fulfill its corporate purposes up to a total outstanding amount of \$2.4 billion. Amounts so issued shall not be deemed to constitute a debt of the state of Minnesota or any political subdivision thereof.

The following describes the funds maintained by the Agency, all of which conform with the authorizing legislation and bond resolutions:

*General Reserve Account*

The General Reserve Account was established in fulfillment of the pledge by the Agency of its full faith and credit in its bond resolutions. Administrative costs of the Agency and multifamily development escrows receipts and related disbursements are recorded in this account.

*Single Family*

Bond proceeds for the bond-financed homeownership programs are maintained primarily under Single Family. These loans are secured by first mortgages on real property.

**2. Other Funds of the Agency**

The following describes the funds maintained by the Agency which are not shown in these financial statements, all of which conform with the authorizing legislation.

*Appropriated Accounts*

The Appropriated Accounts were established to account for funds received from the State Legislature and the Federal government which are to be used for low-interest loans, no-interest deferred loans, programs for low- to moderate-income persons and families, innovative development and other housing related program costs.

The following describes the bond funds maintained by the Agency, all of which conform with the authorizing legislation and bond resolutions.

*Housing Development and Rental Housing*

Bond proceeds for the multifamily housing programs are currently maintained under two separate bond resolutions: Housing Development and Rental Housing. These loans are secured by first mortgages on real property.

*Residential Housing Finance*

Included within Residential Housing Finance are the bonds issued and outstanding under the resolution, the bond restricted Home Improvement, Homeownership and Multifamily Endowment Funds, and the board restricted Alternative Loan Fund.

**MINNESOTA HOUSING FINANCE AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

**(Information for the period after June 30, 2000 is unaudited)**

**2. Other Funds of the Agency (continued)**

**Bonds**

The 1995 Series A and 1997 Series A bonds were issued to fund purchases of single family first mortgage loans. The Agency anticipates that future series may finance program obligations other than single family mortgage loans.

Assets of the series bonds issued and outstanding under the Resolution and of the three endowment funds described below are pledged to the repayment of Residential Housing Finance bondholders.

**Home Improvement Endowment Fund**

This fund is the principal source of funding for home improvement loans. Home improvement loans in excess of \$5,000 are generally secured by a second mortgage.

**Homeownership Endowment Fund**

This fund is the source of funding for the entry cost and monthly housing assistance programs for first-time homebuyers and below-market interim financing during construction and/or rehabilitation of single family housing.

**Multifamily Endowment Fund**

This fund is the principal source of funding for innovation multifamily programs that are not candidates for bond financing such as tenant services program, a contingency fund, non-profit capacity building, flexible financing, incentive loans, and a program for leveraging investments in neighborhoods and children.

**Alternative Loan Fund**

An Alternative Loan Fund has been established in Residential Housing Finance to deposit funds in either the Housing Investment Fund or Housing Affordability Fund, which were otherwise available to be transferred to the General Reserve Account. The Alternative Loan Fund is not pledged to the payment of the Residential Housing Finance bonds, or any other specific debt obligation of the Agency, and is generally available to pay any debt obligation of the Agency.

The Alternative Loan Fund, Housing Investment Fund, is currently invested in investment grade loans, as defined by the Agency, and may be used to advance funds to retire high interest rate debt and warehouse loans.

The Alternative Loan Fund, Housing Affordability Fund, includes a reserve consisting of cash and investment grade loans, as defined by the Agency, for future Agency administrative costs and may be used as a source of funding for bond sale contributions, zero percent deferred multifamily loans, low and moderate income rental, first and subordinated mortgage loans, and other below market-rate loans with higher than ordinary risk factors, as well as advancing funds to retire high rate debt and loan warehousing.

Each respective bond resolution described above prescribes the accounting for bond proceeds, debt service requirements of the bond indebtedness, permitted investments, and eligible loans to be financed from the bond proceeds.

The audited financial statements for the years ended June 30, 2000 and June 30, 1999 for the above mentioned funds are available upon request from the Agency.

# MINNESOTA HOUSING FINANCE AGENCY

## NOTES TO FINANCIAL STATEMENTS

(Information for the period after June 30, 2000 is unaudited)

### 2. Other Funds of the Agency (continued)

The following represents condensed financial information on certain funds mentioned above (in thousands):

	Total Assets			Bonds Payable, Gross			Restricted Fund Balances			Revenues Over Expenses		
	March 31, 2001	June 30, 2000	June 30, 1999	March 31, 2001	June 30, 2000	June 30, 1999	March 31, 2001	June 30, 2000	June 30, 1999	March 31, 2001	June 30, 2000	June 30, 1999
Housing Development	\$ 82,092	\$ 84,472	\$101,882	\$66,475	\$68,835	\$86,715	\$15,372	\$ 14,114	\$ 13,569	\$1,640	\$1,091	\$ 1,576
Rental Housing...	335,787	344,362	338,866	267,975	275,785	276,870	51,175	47,061	41,950	5,436	6,271	5,713
Residential Housing Finance...	405,787	396,036	387,769	56,935	62,030	70,965	369,408	352,742	337,841	18,860	14,355	17,732

Of the total Restricted Fund Balances listed above at March 31, 2001, June 30, 2000 and June 30, 1999, \$263,342,000, \$251,705,000, and \$239,669,000 are Bond Restricted, respectively, and \$172,613,000, \$162,212,000 and \$153,691,000 are Board Restricted, respectively.

As of March 31, 2001, June 30, 2000 and June 30, 1999 the Agency had committed \$31,288,000, \$86,656,000 and \$47,707,000 respectively, for the purchase or making of future loans from the above mentioned funds.

### 3. Summary of Significant Accounting Policies

The following is a summary of the more significant accounting policies.

#### *Basis of Accounting*

The Agency follows the accrual basis of accounting.

#### *Cash and Cash Equivalents, net*

Cash equivalents may include commercial paper, money market funds, repurchase agreements, investment agreements and any other investments, primarily US treasuries and agencies, which have 90 or less days remaining to maturity at the time of purchase.

#### *Investment Securities, net*

The Agency carries investment securities at fair market value and records unrealized gains and losses on investment securities as a result of changes in market valuations.

#### *Loans Receivable, net*

Loans receivable are carried at their unpaid principal balances, net of an allowance for loan losses, unamortized premiums or discounts and fees.

The allowances for loan losses are established based on management's evaluation of the loan portfolio.

Generally, the Agency provides an allowance for loan losses for multifamily loans after considering the specific known risks; adequacy of collateral and projected cash flows; past experience; amount of federal or state rent subsidies, if any; the status and amount of past due payments, if any; the amount of deferred maintenance, if any; and current economic conditions.

For homeownership, home improvement and home energy loans, the Agency establishes varying amounts of reserves depending upon the number of delinquent loans, the number of days delinquent and the type of insurance coverage in force: Federal Housing Administration (FHA) insurance, Rural Development (RD) guarantee, Veterans Administration (VA) guarantee, private mortgage insurance and pool or self-insurance.

Actual losses incurred are charged against the allowance for loan losses; recoveries are added to the allowance for loan losses. Management believes the allowances for loan losses adequately reserve for probable losses inherent in the loan portfolios as of March 31, 2001, June 30, 2000 and June 30, 1999.

MINNESOTA HOUSING FINANCE AGENCY

NOTES TO FINANCIAL STATEMENTS

(Information for the period after June 30, 2000 is unaudited)

**3. Summary of Significant Accounting Policies (continued)**

Premiums, discounts or fees resulting from the purchase or origination of mortgage loans at other than face value are amortized using the effective interest method.

*Interest Receivable on Loans*

The Agency accrues interest on its non-deferred loans until they become 90 days or more delinquent in the case of multifamily loans or until they become "real estate owned" for all other loans.

*Mortgage Insurance Claims Receivable, net*

Mortgage insurance claims are filed on properties that are FHA insured or VA or RD guaranteed.

*Real Estate Owned*

Real estate acquired through foreclosure is recorded at the lower of the investment in the loan or estimated fair market value less estimated selling costs.

*Bonds Payable, net*

Bonds payable are carried at their unpaid principal balances, net of unamortized deferred financing costs. Deferred finance costs are amortized using the effective interest method in Single Family and Residential Housing Finance funds. In the Housing Development and Rental Housing funds, deferred finance costs are amortized using the bonds outstanding method due to the unpredictable nature of prepayments of multifamily loans.

*Interfund Payable (Receivable)*

Interfund payable (receivable) primarily reflects pending transfers of cash and assets between funds. The more significant activities that flow through this fund may include funds advanced for purposes of optionally redeeming bonds when economically advantageous, funds advanced for loan warehousing, administrative fees receivable and payable between funds, and certain mortgage payments received and pending transfer to the respective funds.

*Funds Held for Others*

Funds held for others are primarily escrow amounts held by the Agency on behalf of multifamily housing developments where the Agency holds the first mortgages. These amounts are held under the terms of the related loans and Federal regulations regarding subsidized housing. Investment income relating to these funds is credited directly to the escrow funds; it is not included in the investment income of the General Reserve Account. Also included in funds held for others are monitoring fees collected and pending disbursement in connection with the Class 4(d) Real Estate Tax Assessment Legislation.

*Bond Resolution Restricted*

Bond Resolution Restricted Fund Balances represent those funds restricted within the respective bond resolution due to the specific provisions of the bond resolutions.

*Board Resolution Restricted*

Board Resolution Restricted Fund Balances represent those funds in the General Reserve Account and those funds which were otherwise available to be transferred to the General Reserve Account. Under the Agency's bond resolutions, these are pledged as security for the Agency's general obligation pledge. The Agency's Board is responsible for establishing the investment guidelines for these funds.

**MINNESOTA HOUSING FINANCE AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

**(Information for the period after June 30, 2000 is unaudited)**

**3. Summary of Significant Accounting Policies (continued)**

*Fees Earned*

Fees earned consists mainly of fees related to the financing and administration of Section 8 properties, fees in connection with operating the Low Income Housing Tax Credits program and application fees for administering the Class 4(d) Real Estate Tax Assessment Legislation. Fee income is recorded as it is earned.

*Reduction in Carrying Value of Certain Low Interest Rate Deferred Loans*

Generally, the carrying value of those Housing Affordability Fund loans and Endowment Fund loans which are originated at interest rates ranging from 0-3% and for which repayment is deferred for up to 30 years is written down to zero at the time of origination by providing for a Reduction in Carrying Value of Certain Low Interest Rate Deferred Loans because of the nature of these loans and the risk associated with them.

*Other Changes*

The Agency utilizes the Other Changes section of the Statement of Revenues and Expenses and Changes in Restricted Fund Balances to describe various transfers between funds.

*Administrative Reimbursement From (To) Funds*

For the year ended June 30, 2000 the Agency's administrative operations are funded primarily by a monthly transfer from each of the funds to the General Reserve Account in the amount of sixty basis points annually based on adjusted assets. Adjusted assets are defined as total assets plus the reserve for loan loss plus unearned discounts on loans minus premiums on loans. This is a change from prior years when the sixty basis points was based on outstanding long-term bonds.

For programs funded by state appropriations, the Agency recovers the cost of administering the programs to the extent of interest earnings on the appropriations. Such cost recoveries are recorded in this account.

*Transfer of Assets Between Funds*

Funds less than or in excess of the Housing Endowment Fund requirement, if any, in the General Reserve Account are transferred annually from or to the Residential Housing Finance, Alternative Loan Fund.

*Contribution to Program Funds*

Agency contributions to its bond issues may be made from the Alternative Loan Fund, Housing Affordability Fund, and are reflected here.

*Non-Cash Activities*

Transfers from loans receivable to mortgage insurance claims receivable for fiscal year 2000 were \$533,151 and \$4,362,523, for Residential Housing Finance and Single Family, respectively.

*Use of Estimates*

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

# MINNESOTA HOUSING FINANCE AGENCY

## NOTES TO FINANCIAL STATEMENTS

(Information for the period after June 30, 2000 is unaudited)

### 3. Summary of Significant Accounting Policies (continued)

#### *Related Party Transactions*

The Alternative Loan Fund in Residential Housing Finance continues to reflect outstanding advances made in fiscal year 1997 for the purpose of optionally redeeming bonds in Rental Housing. The advances were made in order to take advantage of economically favorable conditions for redeeming bonds. The advances continue to be repaid according to the original debt repayment schedule. The advances are recorded in Interfund Payable (Receivable).

#### *Income Taxes*

The Agency is a component unit of the State of Minnesota and is exempt from federal and state income taxes. Accordingly, no provision for income taxes is necessary.

#### *Rebateable Arbitrage*

Arbitrage earnings that are due to the Federal government are recorded in Accounts Payable. This liability does not reflect any unrealized appreciation or depreciation as a result of recording investment securities at fair market value.

### 4. Cash, Cash Equivalents and Investment Securities, Net

Investments consist of those permitted by the various bond resolutions, state law and Board policy.

Cash and cash equivalents are stated at cost which approximates market and are composed of the following (in thousands):

Funds	March 31, 2001				June 30, 2000				June 30, 1999			
	Deposits	Repurchase Agreements	Investment Agreements	Combined Totals	Deposits	Repurchase Agreements	Investment Agreements	Combined Totals	Deposits	Repurchase Agreements	Investment Agreements	Combined Totals
General Reserve.....	\$ -	\$ 67,178	\$ -	\$ 67,178	\$12,865	\$ 2,343	\$ -	\$ 15,208	\$ -	\$ 4,166	\$ -	\$ 4,166
Single Family.....	4,675	13,810	516,035	534,520	5,067	27,531	567,856	600,454	8,992	26,992	652,018	688,002

Deposits may consist of commercial paper for the General Reserve Account and cash awaiting investment for the remainder of the funds. The commercial paper is held by the Agency's agent.

Repurchase agreements are collateralized at 102% of loan value with US treasury and agency securities maturing in less than six years. Generally, repurchase agreements mature in one week or less. At June 30, 2000 the collateral for the repurchase agreements in the General Reserve Account is held by a third-party agent. The collateral for the repurchase agreements in the remainder of the funds is held by the trustee as trustee for the Agency.

Generally, investment agreements are uncollateralized, interest-bearing, time deposits with financial intermediaries with variable liquidity features which require a one day to two week notice for deposits and/or withdrawals and are invested in accordance with the restrictions specified in the various bond resolutions. As of June 30, 2000, all the investment agreement providers have a Standard & Poor's credit rating of "A+" or higher and a Moody's long-term credit rating of "Aa3" or higher. Substantially all of the agreements contain "termination" clauses so that the Agency may withdraw funds early if credit ratings deteriorate below specified levels and collateral is not provided.



# MINNESOTA HOUSING FINANCE AGENCY

## NOTES TO FINANCIAL STATEMENTS

(Information for the period after June 30, 2000 is unaudited)

### 4. Cash, Cash Equivalents and Investment Securities, Net (continued)

Investment securities are recorded at fair market value and are composed of the following (in thousands):

Funds	March 31, 2001			June 30, 2000			June 30, 1999		
	US Treasury and Agency	Unrealized Appreciation (Depreciation) in Fair Market Value	Combined Totals	US Treasury and Agency	Unrealized Appreciation (Depreciation) in Fair Market Value	Combined Totals	US Treasury and Agency	Unrealized Appreciation (Depreciation) in Fair Market Value	Combined Totals
General Reserve.....	\$ 83,209	\$ 2,156	\$ 85,365	\$ 125,653	\$ (3,345)	\$ 122,308	\$ 132,633	\$ (80)	\$ 132,553
Single Family.....	12,631	1,515	14,146	14,416	616	15,032	23,594	948	24,542

US treasury and agency securities in the General Reserve Account are held by the Agency's agent in the name of the state of Minnesota. US treasury and agency securities in the remainder of the funds are held by the Agency's trustee in the Agency's name.

Certain balances are required to be maintained under the various bond resolutions. These balances represent debt service and/or insurance reserves. The required balances at March 31, 2001, June 30, 2000 and June 30, 1999 for Single Family are \$56,151,000, \$55,408,000 and \$56,085,000 respectively.

### 5. Loans Receivable, Net

Loans receivable, net for Single Family consist of (in thousands):

	Single Family		
	March 31, 2001	June 30, 2000	June 30, 1999
Outstanding principal.....	\$ 1,146,702	\$ 1,102,217	\$ 1,074,737
Allowance for loan losses....	(185)	(185)	(185)
Unamortized discount.....	(11,902)	(11,135)	(10,412)
Loans receivable, net.....	<u>\$ 1,134,615</u>	<u>\$ 1,090,897</u>	<u>\$ 1,064,140</u>

Substantially all loans in Single Family are secured by first mortgages on the real property.

**MINNESOTA HOUSING FINANCE AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

**(Information for the period after June 30, 2000 is unaudited)**

**6 Bonds Payable, Net**

Bonds payable, net for Single Family are as follows (in thousands):

	<b>Single Family</b>		
	<b>March 31, 2001</b>	<b>June 30, 2000</b>	<b>June 30, 1999</b>
Outstanding principal.....	\$ 1,589,810	\$ 1,588,525	\$ 1,668,100
Unamortized deferred finance costs....	(11,917)	(12,160)	(12,117)
Bonds payable, net.....	<u>\$ 1,577,893</u>	<u>\$ 1,576,365</u>	<u>\$ 1,655,983</u>

Outstanding principal of Single Family bonds payable are as follows (in thousands):

<b>Series</b>	<b>Interest Rate</b>	<b>Maturity Due Dates</b>	<b>Outstanding Amount</b>		
			<b>March 31, 2001</b>	<b>June 30, 2000</b>	<b>June 30, 1999</b>
1988 Series D	----	----	\$ -	\$ -	\$ 6,080
1988 Series E	----	----	-	-	5,475
1989 Series B	----	----	-	-	7,635
1989 Series C	----	----	-	-	2,715
1989 Series D	----	----	-	-	14,895
1991 Series A	7.45%	2022	4,490	9,570	33,710
1991 Series B	7.30%	2011	225	485	1,900
1991 Series C	6.50% to 7.10%	2001-2011	1,225	3,295	15,285
1991 Series A Remarketed	7.05%	2022	9,040	9,225	12,990
1991 Series B Remarketed	6.95%	2011	675	690	710
1991 Series C Remarketed	6.10% to 6.80%	2001-2011	4,625	5,145	5,695
1992 Series A	6.25% to 6.95%	2001-2016	7,225	7,505	9,710
1992 Series B-1	6.75%	2026	7,745	8,100	8,835
1992 Series C-1	6.75%	2023	7,035	7,360	8,020
1992 Series D-1	5.60% to 6.50%	2001-2017	12,690	13,755	15,520
1992 Series B-2	6.15%	2026	9,565	9,860	10,580
1992 Series C-2	6.15%	2023	8,280	8,535	9,155
1992 Series D-2	5.05% to 5.95%	2001-2017	14,915	15,930	17,705
1992 Series E	6.85%	2024	43,360	44,195	46,485
1992 Series F	6.75%	2012	3,635	3,705	3,895
1992 Series G	----	----	-	-	4,320
1992 Series H	6.50%	2026	20,365	20,970	21,895
1992 Series I	5.50% to 6.25%	2001-2015	11,700	12,590	13,480
1993 Series B	5.80%	2025	23,590	23,590	23,590
1993 Series C	4.75% to 5.60%	2001-2017	9,755	10,435	18,720
1993 Series D	6.40%	2027	13,105	13,665	16,565
1993 Series F	6.25%	2020	6,085	6,495	8,255

**MINNESOTA HOUSING FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Information for the period after June 30, 2000 is unaudited)**

Series	Interest Rate	Maturity Due Dates	Outstanding Amount		
			March 31, 2001	June 30, 2000	June 30, 1999
1994 Series A	4.45% to 5.00%	2001-2013	5,450	6,140	8,550
1994 Series B	4.75% to 5.65%	2016-2022	12,110	13,955	16,985
1994 Series C	5.65%	2025	8,995	8,995	8,995
1994 Series D	4.50% to 5.00%	2001-2025	26,350	28,785	47,335
1994 Series E	4.35% to 5.90%	2001-2025	23,035	23,525	29,825
1994 Series F	5.15% to 6.30%	2001-2025	25,350	26,420	33,515
1994 Series G	6.45%	2020	13,230	15,715	19,635
1994 Series H	5.85% to 6.70%	2004-2018	11,495	12,495	16,570
1994 Series I	5.55% to 6.90%	2001-2022	6,970	8,080	11,510
1994 Series J	6.95%	2026	8,545	9,285	12,315
1994 Series K	5.30% to 6.40%	2001-2015	12,640	14,315	19,345
1994 Series L	6.70%	2020	10,150	10,955	14,025
1994 Series M	6.70%	2026	14,510	15,660	20,045
1994 Series N	6.45%	2025	9,885	11,280	14,915
1994 Series O	6.45%	2012	7,690	8,295	10,345
1994 Series P	6.45%	2021	14,055	15,150	18,890
1994 Series Q	6.70%	2017	2,490	2,690	7,800
1994 Series R	5.85% to 6.50%	2001-2007	4,140	5,120	6,410
1994 Series S	6.92%	2026	19,240	20,810	23,460
1994 Series T	5.00% to 6.25%	2001-2017	11,410	12,745	15,290
1995 Series A	-----	-----	-	5	4,180
1995 Series B	6.40% to 6.55%	2017-2027	31,930	34,485	35,570
1995 Series C	-----	-----	-	-	2,285
1995 Series D	6.40% to 6.45%	2015-2025	34,450	36,935	40,160
1995 Series G	6.80% to 8.05%	2001-2012	5,085	5,620	7,230
1995 Series H	6.40%	2027	14,350	14,965	18,135
1995 Series I	6.35%	2017-2018	5,555	5,790	7,020
1995 Series J	4.70% to 6.10%	2001-2019	11,060	12,270	14,980
1995 Series K	6.20%	2020	1,145	1,235	1,445
1995 Series L	6.25%	2027	9,990	10,755	12,520
1995 Series M	4.50% to 5.875%	2001-2017	27,125	28,260	31,475
1996 Series A	5.70% to 6.375%	2022-2028	24,715	24,715	31,665
1996 Series B	6.35%	2018-2019	7,680	7,680	7,680
1996 Series C	5.00% to 6.10%	2001-2015	9,980	10,485	10,960
1996 Series D	4.85% to 6.00%	2001-2017	15,255	16,910	19,500
1996 Series E	6.25%	2022-2023	10,615	11,305	12,565
1996 Series F	6.30%	2026-2028	13,420	14,290	15,860
1996 Series G	6.25%	2026-2028	31,125	33,450	38,700
1996 Series H	6.00%	2021	10,315	11,085	12,835
1996 Series I	6.73% to 8.00%	2001-2017	9,930	11,010	13,105
1996 Series J	5.60%	2021	805	850	915
1996 Series K	4.10% to 5.40%	2001-2017	8,340	8,735	9,180

**MINNESOTA HOUSING FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Information for the period after June 30, 2000 is unaudited)**

Series	Interest Rate	Maturity Due Dates	Outstanding Amount		
			March 31, 2001	June 30, 2000	June 30, 1999
1997 Series A	4.75% to 5.95%	2001-2017	19,305	20,080	20,815
1997 Series B	6.20%	2021	8,445	8,445	8,445
1997 Series C	5.30% to 6.25%	2025-2029	18,295	20,900	25,165
1997 Series D	5.80% to 5.85%	2019-2021	13,010	13,010	13,315
1997 Series E	5.05% to 5.90%	2024-2029	15,470	16,420	19,725
1997 Series F	6.75% to 7.43%	2001-2012	7,505	8,255	9,745
1997 Series G	5.10% to 6.00%	2003-2018	40,260	40,260	40,260
1997 Series H	4.9% to 6.15%	2001-2019	10,650	11,455	11,455
1997 Series I	5.50%	2017	9,535	9,535	9,730
1997 Series J	4.85%	2021	6,215	7,740	9,020
1997 Series K	5.75%	2026-2029	22,240	22,240	22,700
1997 Series L	6.31% to 6.95%	2001-2010	7,845	8,815	9,550
1998 Series A	4.65% to 5.20%	2008-2017	5,390	5,595	5,710
1998 Series B	4.15% to 5.50%	2001-2029	15,355	16,815	17,030
1998 Series C	4.10% to 5.25%	2001-2017	20,875	21,775	21,775
1998 Series D	4.70%	2020	6,755	7,965	7,965
1998 Series E	5.40%	2025-2030	29,895	30,500	30,500
1998 Series F	3.45%	2017	-	-	22,035
1998 Series G	3.55%	2022	-	-	12,755
1998 Series H	3.55%	2031	-	-	30,850
1998 Series F Remarketed	3.45%	2017	-	11,385	-
1998 Series G Remarketed	3.55%	2022	-	6,605	-
1998 Series H Remarketed	3.55%	2031	-	15,965	-
1998 Series F-1	4.10% to 5.45%	2001-2017	10,585	10,650	-
1998 Series G-1	5.60%	2022	6,110	6,150	-
1998 Series H-1	5.65%	2031	14,785	14,885	-
1998 Series F-2	4.30% to 5.70%	2001-2017	11,385	-	-
1998 Series G-2	6.00%	2022	6,605	-	-
1998 Series H-2	6.05%	2031	15,965	-	-
1998 Series I	-----	-----	-	39,990	39,990
1998 Series J	-----	-----	-	32,475	32,475
1998 Series K	-----	-----	-	11,885	11,885
1998 Series L	-----	-----	-	32,070	32,070
1998 Series M	-----	-----	-	50,560	50,560
1999 Series B	5.00% to 5.25%	2013-2020	18,615	18,865	18,865
1999 Series C	4.00% to 4.85%	2002-2024	21,505	21,960	21,960
1999 Series D	5.45%	2026-2031	23,665	23,975	23,975
1999 Series E	-----	-----	-	-	23,650
1999 Series F	-----	-----	-	-	16,580
1999 Series H	5.30% to 5.80%	2011-2021	16,300	16,350	-
1999 Series I	4.40% to 6.05%	2002-2031	34,530	34,700	-
1999 Series J	4.40%	2017	4,745	4,745	-
1999 Series K	4.50%	2023	44,515	44,515	-

**MINNESOTA HOUSING FINANCE AGENCY  
NOTES TO FINANCIAL STATEMENTS**

(Information for the period after June 30, 2000 is unaudited)

Series	Interest Rate	Maturity Due Dates	Outstanding Amount		
			March 31, 2001	June 30, 2000	June 30, 1999
2000 Series A	5.25% to 5.85%	2009-2020	18,650	18,650	-
2000 Series B	4.90% to 5.55%	2002-2024	16,580	16,580	-
2000 Series C	6.10%	2030-2032	30,320	30,320	-
2000 Series D	4.30%	2001	14,035	14,035	-
2000 Series E	4.35%	2001	15,055	15,055	-
2000 Series F	Variable	2031	20,000	20,000	-
2000 Series G	4.35%	2025	39,990	-	-
2000 Series H	4.40%	2023	32,475	-	-
2000 Series I	4.60% to 5.80%	2002-2019	20,185	-	-
2000 Series J	5.40% to 5.90%	2023-2030	29,720	-	-
2000 Series K	4.35%	2001	20,840	-	-
2000 Series L	4.40%	2001	19,840	-	-
2000 Series M	4.45%	2001	35,595	-	-
2000 Series N	4.45%	2001	40,230	-	-
			<u>\$ 1,589,810</u>	<u>\$ 1,588,525</u>	<u>\$ 1,668,100</u>

The Agency uses special and optional redemption provisions to retire certain bonds prior to their stated maturity from unexpended bond proceeds and revenues in excess of scheduled debt service primarily resulting from loan repayments.

All bonds are subject to optional redemption after various dates at an amount equal to 100% to 102% of the unpaid principal and accrued interest as set forth in detail within the applicable series resolution.

Amounts of bonds maturing in the first five fiscal years subsequent to March 31, 2001, excluding bonds called for early redemption prior to March 31, 2001, as listed below, are as follows (in thousands):

	2002	2003	2004	2005	2006	Thereafter
Single Family	\$22,195	\$25,255	\$27,820	\$28,890	\$30,065	\$1,455,585

The income and assets of each of the bond funds are pledged for the payment of principal and interest on the bonds issued and to be issued by the program. The Agency believes that as of June 30, 2000, the assets of all funds and accounts in the bond funds equaled or exceeded the requirements as established by the bond resolution.

As of March 31, 2001, the Agency called for early redemption of the following Single Family Mortgage Bonds:

<u>Program Funds</u>	<u>Retirement Date</u>	<u>Original Principal Value</u>
Single Family	June 1, 2001	\$23,590,000

**MINNESOTA HOUSING FINANCE AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

**(Information for the period after June 30, 2000 is unaudited)**

**7. Board Restricted Fund Balances**

In accordance with provisions of the respective bond resolutions, the Agency may transfer money from bond funds to the General Reserve Account. The Agency has pledged to deposit in the General Reserve Account any such funds transferred from the bond funds, except for any amounts as may be necessary to reimburse the State for money appropriated to restore a deficiency in any debt service reserve fund. The Agency further covenants that it will use the money in the General Reserve Account only for the administration and financing of programs in accordance with the policy and purpose of the Minnesota Housing Finance Agency Act, including reserves for the payment of bonds and of loans made from the proceeds thereof, and will accumulate and maintain therein such a balance of funds and investments as will be sufficient for that purpose. All interfund transfers are approved by the Board of the Agency.

In order to provide financial security for the Agency's bondholders and to provide additional resources for housing loans to help meet the housing needs of low and moderate income Minnesota residents, the Agency's Board adopted the following investment guidelines. These guidelines are periodically evaluated in consideration of changes in the economy and changes in the Agency's specific risk profile. The Agency's Board in 1997 reaffirmed the guidelines in connection with a forward-looking risk analysis. The following table describes the balances to be maintained according to the guidelines. Amounts in this table do not include unrealized appreciation or depreciation resulting from valuing investment securities at fair market value.

Board Resolution Restricted Fund Balances	Amount at June 30, 2000 (in thousands)
Housing Endowment Fund	
An amount equal to 2% of gross loans outstanding (excludes loans written off 100%) will be invested in short term, investment grade paper at market interest rates.....	\$ 34,922
Housing Investment Fund	
An amount equal to 5% of bonds outstanding less the Housing Endowment Fund will be invested in intermediate to long term, investment grade housing loans as defined by the Agency, at interest rates which could be up to 3% below market .....	64,837
Housing Affordability Fund	
Funds in excess of 5% of bonds may be used for administration of housing housing programs, contributions to bond issues, early bond redemptions and low interest rate loans with higher than ordinary risk factors .....	100,921
Combined Total.....	<u>\$200,680</u>

The Housing Endowment Fund is maintained in the Board Resolution Restricted Fund Balance of the General Reserve Account.

Cash, cash equivalents, investment securities and loans originated with monies in the Housing Investment Fund and Housing Affordability Fund are maintained in the Alternative Loan Fund in the Residential Housing Finance Fund.

All of the Single Family restricted fund balances at June 30, 2000 and June 30, 1999 are restricted per the bond resolution.

# MINNESOTA HOUSING FINANCE AGENCY

## NOTES TO FINANCIAL STATEMENTS

(Information for the period after June 30, 2000 is unaudited)

### 8. Defined Benefit Pension Plan

The Agency contributes to the Minnesota State Retirement System (System), a multiple-employer public employee retirement system, which provides pension benefits for all permanent employees.

Employees who retire at "normal" retirement age or, for those hired on or before 6/30/89, at an age where they qualify for the "Rule of 90" (i.e., at an age where age plus years of service equals or exceeds 90) are entitled to an unreduced monthly benefit payable for life. For those hired on or before 6/30/89, normal retirement age is age 65 or age 62 with 30 years of service. For those hired after 6/30/89, normal retirement age is the Social Security retirement age. The monthly benefit is calculated according to the "step formula" for anyone retiring under the Rule of 90. For those hired on or before 6/30/89 and not retiring under the Rule of 90, the monthly benefit is calculated according to the step formula or the "level formula," whichever provides the largest benefit. For those hired after 6/30/89, the monthly benefit is calculated according to the level formula. Under the step formula, an employee earns a 1.2% credit for each of the first 10 years of employment and a 1.7% credit for each year thereafter. The monthly benefit is then determined by applying the sum of these credits to the average monthly salary earned during the employee's five years of greatest earnings. Under the level formula the monthly benefit is computed just as it is under the step formula except that an employee earns a 1.7% credit for each year of employment, not just for those years beyond the first 10. A reduced benefit is available to those retiring at age 55 with at least three years of service. With 30 years of service, a reduced benefit is available at any age to those hired on or before 6/30/89. The system also provides death and disability benefits. Benefits are established by Minnesota state law.

Details of the benefit plan are provided on a System-wide basis. The Agency portion is not separately determinable. The funding status of the System's benefit plan is summarized as follows:

Schedule of Funding Progress (dollars in thousands)						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Excess Funded Actuarial Accrued Liability (EFAAL)	Funded Ratio	Actual Covered Payroll (Previous FY)	EFAAL as a % of Covered Payroll
07/01/99	\$5,968,692	\$5,464,207	\$504,485	109.23%	\$1,649,469	30.58%

  

Schedule of Employer Contributions (dollars in thousands)						
Year Ended June 30	Actuarially Required Contribution Rate	Actual Covered Payroll	Actual Member Contributions	Annual Required Contribution	Actual Employer Contribution*	Percentage Combined
1999	6.48%	\$1,649,469	\$66,823	\$40,063	\$65,979	164.69%

\* Includes contributions from other sources (if applicable).

The information presented is as of July 1, 1999, which is the latest actuarial information available.

The above summarizes the defined benefit pension plan. Please refer to the June 30, 1999, Minnesota State Retirement System Comprehensive Annual Financial Report for a more comprehensive description.

**MINNESOTA HOUSING FINANCE AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Information for the period after June 30, 2000 is unaudited)**

**9. Commitments**

As of March 31, 2001, the Agency had committed the following amounts for the purchase or origination of future loans (in thousands):

Funds	Approximate Amount
General Reserve	\$ 0
Single Family .....	41,867
Total .....	<u>\$41,867</u>

The Agency has lease commitments for office facilities and parking on a long-term basis. Lease expense for the fiscal year ended June 30, 2000 was \$891,475. Commitments for future minimum lease payments aggregate \$925,305 in 2001, \$961,043 in 2002, \$996,267 in 2003, \$1,028,191 in 2004, \$1,025,232 in 2005, and \$4,286,609 thereafter. The Agency has the option to terminate the lease for office facilities effective May 31, 2004.

The Agency has in place a \$15 million line of credit with Wells Fargo Bank Minnesota, N.A. At March 31, 2001 there were no outstanding advances.

The Agency is a party to various litigation arising in the ordinary course of business. While the ultimate effect on such actions cannot be predicted with certainty, the Agency expects that the outcome of these matters will not result in a material adverse effect on the General Reserve Account of the Housing Development Fund's financial position or results of operations

**10. Subsequent Events (unaudited)**

On April 19, 2001, the Board of the Agency approved series resolutions authorizing the issuance of \$78,515,000 bonds for the purpose of providing funds for certain of the Agency's homeownership programs. The Single Family Mortgage Bonds, 2001 Series A, Series B, Series C. and Series D were delivered on May 1, 2001.



## SUMMARY OF CONTINUING DISCLOSURE AGREEMENT

*The following statements are extracted provisions of the Continuing Disclosure Agreement between the Agency and the Trustee.*

**Definitions.** In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Agreement, the following capitalized terms shall have the following meanings:

“Agency Annual Report” shall mean any Annual Report provided by the Agency pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Agency Disclosure Representative” shall mean such officer of the Agency or a designee, or such other person or agent of the Agency as the Commissioners shall designate in writing to the Trustee from time to time.

“Beneficial Owners” shall mean (1) in respect of a Series Bond subject to a book-entry-only registration system, any person or entity which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, such Series Bond (including persons or entities holding Series Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of the Series Bond for federal income tax purposes, and such person or entity provides to the Trustee evidence of such beneficial ownership in form and substance reasonably satisfactory to the Trustee; or (2) in respect of a Series Bond not subject to a book-entry-only registration system, the registered owner or owners thereof appearing in the bond register maintained by the Trustee, as Registrar.

“Listed Events” shall mean any of the events listed below under the heading “Reporting of Significant Events.”

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

“Repository” shall mean each National Repository and each State Repository.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (“SEC”) under the Securities Exchange Act of 1934 (“1934 Act”).

“State Repository” shall mean any public or private repository or entity as may be designated by the State as a state information depository for the purpose of the Rule. As of the date of this Disclosure Agreement, there is no State Repository.

### ***Provision of Annual Reports.***

(a) The Agency shall, no later than nine months after the close of each fiscal year, commencing with the fiscal year ending June 30, 2001, provide to each Repository and to the Trustee, an Agency Annual Report in compliance with the requirements of Section 4 of this Disclosure Agreement.

(b) If on the date specified in subsection (a) for providing the Agency Annual Report to Repositories, the Trustee has not received a copy of the Agency Annual Report, the Trustee shall contact the Agency Disclosure Representative to determine if the Agency is in compliance with subsection (a). If the Trustee determines that the Agency has not filed its Agency Annual Report, when due, the Trustee shall file a notice with the Repositories as set forth in Exhibit A and as required by Rule 15c2-12(b)(5)(i)(D).

***Content of Annual Reports.*** The Agency’s Annual Report shall contain or include by reference the following:

Audited financial statements of the Agency for its prior fiscal year reporting on the balance sheets of the Agency’s Single Family Mortgage Program Fund and the General Reserve Account of the Housing

Development Fund and related statements of revenues and expenses and changes in restricted fund balances and of cash flows. If, on the date the Agency is required to provide the Agency Annual Report, the Agency has not received a report of independent auditors, the Agency shall provide the Repositories and the Trustee with its unaudited financial statements prepared in substantially the format of its audited financial statements.

Any or all of the items listed above may be provided by reference to other documents, including official statements of debt issues of the Agency or related public entities, which have been submitted to each of the Repositories. If the document provided by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Agency shall clearly identify each such other document so incorporated by reference in the Agency's Annual Report.

The accounting principles used by the Agency in the preparation of its financial statements are generally accepted accounting principles, referred to as "GAAP."

***Reporting of Significant Events.***

(a) This section shall govern the giving of notices of the occurrence of any of the following events with respect to the Series Bonds:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions or events affecting the tax-exempt status of the security;
7. Modifications to rights of security holders;
8. Bond calls;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the securities; and
11. Rating changes.

(b) The Trustee shall, within one (1) Business Day of obtaining actual knowledge of the occurrence of any of the Listed Events, other than items 8 and 9, inform the Agency Disclosure Representative of the occurrence of the event.

(c) Whenever the Agency obtains actual knowledge of the occurrence of a Listed Event, the Agency shall, as soon as practicable, take such steps as are necessary to determine if such event would constitute material information within the meaning of cases decided under the 1934 Act.

(d) If the Agency has determined that the occurrence of a Listed Event is material within the meaning of cases decided under the 1934 Act, the Agency Disclosure Representative shall promptly notify the Trustee in writing. Such notice shall inform the Trustee that the occurrence is being reported by the Agency or instruct the Trustee to report the occurrence pursuant to subsection (f).

(e) If in response to information received from the Trustee under subsection (b), the Agency determines that the Listed Event would not be material within the meaning of cases decided under the 1934 Act, the Agency Disclosure Representative shall so notify the Trustee in writing and instruct the Trustee not to report the occurrence pursuant to subsection (f).

(f) If the Trustee has been instructed by the Agency Disclosure Representative to report the occurrence of a Listed Event, the Trustee shall file a notice of such occurrence with each National Repository or the Municipal Securities Rulemaking Board and each State Repository.

(g) Notice of Listed Events described in subsections (a) (8) and (9) need not be given under this section any earlier than notice of the underlying event is given to Holders of affected Bonds pursuant to the Resolution. Nothing in this Disclosure Agreement supercedes the Trustee duties under the Resolution with respect to notices of redemption or notices in connection with defeasance of Bonds.

***Management Discussion of Items Disclosed in Annual Reports or as Significant Events.*** If an item required to be disclosed in the Agency's Annual Report, or as a Listed Event, would be misleading without discussion, the Agency shall additionally provide a statement clarifying the disclosure in order that the statement made will not be misleading in the context in which it is made.

***Termination of Reporting Obligation.*** The Agency's obligations under this Disclosure Agreement shall terminate upon the defeasance, prior redemption or payment in full of all of the Series Bonds in accordance with the Resolution.

***Substitution of Obligated Person.*** The Agency shall not transfer its obligations under the Resolution unless the transferee agrees to assume all the obligations of the Agency under this Disclosure Agreement.

***Amendment; Waiver.*** Notwithstanding any other provision of this Disclosure Agreement, the Agency and the Trustee may amend this Disclosure Agreement (and the Trustee shall agree to any amendment so requested by the Agency), and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel experienced in federal securities laws, acceptable to each of the Agency and the Trustee, to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule taking into account any subsequent change in or official interpretation of the Rule.

***Additional Information.*** Nothing in this Disclosure Agreement shall be deemed to prevent the Agency from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Agency Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Agency chooses to include any information in any Agency Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Agency shall have no obligation under this Disclosure Agreement to update such information or include it in any future Agency Annual Report or notice of occurrence of a Listed Event.

***Default.***

(a) In the event of a failure of the Agency to provide to the Repositories the Agency Annual Report as undertaken by the Agency in this Disclosure Agreement, the Beneficial Owner of any Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Agency to comply with its obligations to provide Annual Reports under this Disclosure Agreement.

(b) Notwithstanding the foregoing, no Beneficial Owner shall have the right to challenge the content or adequacy of the information provided pursuant to this Disclosure Agreement by mandamus, specific performance or other equitable proceedings unless Beneficial Owners of Bonds representing at least 25% aggregate principal amount of outstanding Bonds shall join in such proceedings.

(c) A default under this Disclosure Agreement shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Agreement in the event of any failure of the Agency to comply with this Disclosure Agreement shall be an action to compel performance.

## SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION

*The following statements are brief summaries of certain provisions of the Bond Resolution. Defined terms used in the following summaries are identical in all material respects with those used in the Bond Resolution.*

### Certain Defined Terms

*Bond Requirement:* As of any date of calculation, the sum of (i) that amount of the interest to become due on each Series of Outstanding Bonds at its next Interest Payment Date, the deposit of which once each month between that and the last such Interest Payment Date (or if none, since the Issue Date) will produce a sum sufficient to pay such interest; (ii) that amount of the Principal Installment due on each Series of Bonds at its next Principal Installment Date, the deposit of which, once each month between that and the last such Principal Installment Date would produce a sum sufficient to pay such Principal Installment; (iii) any amount referred to in clauses (i) and (ii) which has not been deposited in the Bond Fund in any month preceding the date of calculation; (iv) any Principal Installment and interest due and unpaid before the date of calculation; and (v) any interest accrued on any such Principal Installment and (to the extent lawful) on any such interest at the same rate as that borne by the Principal Installment before it became due and payable.

*Debt Service Reserve Requirement:* As of any particular date of calculation, the sum of amounts established for each Series of Bonds by the Series Resolution, not less than 3 percent of the principal amount of Bonds of that Series from time to time Outstanding.

*Defaulted Mortgage Loan:* A Mortgage Loan on which payments are 60 days in arrears (but not a Mortgage Loan as to which all defaults have been cured to the satisfaction of the Agency).

*Escrow Payment:* Any amount required pursuant to a Mortgage or collateral agreement to be deposited periodically in escrow by a Mortgagor to accumulate funds needed to pay when due premiums for mortgage insurance and fire and other hazard insurance, and taxes and other governmental charges or to create or maintain reserves for anticipated or contingent construction, completion, replacement or operating costs.

*Fees:* All financing, commitment or similar fees or charges received by the Agency in connection with and at or before the time of making or purchase of a Mortgage Loan, whether paid by a Mortgage Lender or a Mortgagor, seller, builder or developer of the mortgaged property, or as a discount on the purchase of the Mortgage Loan or as a deduction from the first interest payable thereon.

*Home:* Real property and improvements in the State, comprising not more than four dwelling units, occupied or to be occupied by one or more persons or families.

*Insurance Reserve Requirement:* As of any particular date of calculation, the sum of amounts, if any, established for each Series of Bonds by the Series Resolution.

*Investment:* Any of the following which, at the time of purchase, are legal investments for Fiduciaries under the laws of the State for moneys held hereunder which are then proposed to be invested therein:

- (1) Direct general obligations of the United States.
- (2) Obligations the payment of the principal of and interest on which, in the opinion of the Attorney General of the United States, is unconditionally guaranteed by the United States.
- (3) Bonds, debentures, participation certificates or notes issued or unconditionally guaranteed by any agency or corporation which has been or may hereafter be created by or pursuant to an Act of the Congress as an agency or instrumentality of the United States (including but not limited to the fully guaranteed portion of an obligation partially guaranteed by any of the foregoing, if the Trustee's ownership of such portion is accepted in writing by an officer of the guaranteeing agency or instrumentality).
- (4) New housing authority bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual

contributions contract or contracts with the United States, or project notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States.

(5) Direct and general obligations of any state within the United States or any political subdivision of the State of Minnesota, which are at the time of purchase rated in the AA or a higher rating category as defined on the date hereof by a nationally recognized bond rating agency, or in an equivalent or higher rating category based on any subsequent redefinition.

(6) Certificates of deposit, whether negotiable or non-negotiable, interest-bearing time deposits, guaranteed investment contracts or similar deposit agreements or contracts (i) issued or guaranteed by any national banking association or by a bank or trust company organized under the laws of any state (including the Trustee), or by a United States subsidiary of a foreign bank or a branch of a foreign bank licensed by any state or the United States, provided that (a) the principal amount thereof is fully insured by the Federal Deposit Insurance Corporation or, to the extent not so insured, is continuously secured by the deposit with the Trustee, as custodian, of securities described in any of the clauses (1) through (5), inclusive, having an average market value at least equal to the amount not so insured, together with a written undertaking satisfactory to the Trustee that the aggregate value of all securities so deposited will be so maintained, on which undertaking the Trustee shall be entitled to rely, or, alternatively, provided that (b) the institution issuing the certificate of deposit or accepting the time deposit or entering into the guaranteed investment contract or similar deposit agreement or contract, or the guarantor of such institution, has a combined capital and surplus, or stockholder's equity or capital and retained earnings, of at least \$50,000,000, and is rated in the AA or higher rating category as defined on the date hereof by a nationally recognized bond rating agency, or in an equivalent or higher rating category based on any subsequent redefinition (without reference to any modifiers within a category), or (ii) issued or guaranteed by an insurance company organized under the laws of any state or the United States, provided that (a) the principal amount thereof is continuously secured by the deposit with the Trustee, as custodian, of securities described in any of the clauses (1) through (5), inclusive, having an average market value at least equal to said principal amount, together with a written undertaking satisfactory to the Trustee that the aggregate value of all securities so deposited will be so maintained, on which undertaking the Trustee shall be entitled to rely, or, alternatively, provided that (b) the institution issuing the certificate of deposit or accepting the time deposit or entering into the guaranteed investment contract or similar deposit agreement or contract, or the guarantor of such institution, has a combined capital and surplus, or stockholder's equity or capital and retained earnings, of at least \$50,000,000, and is rated in the highest rating category as defined on the date hereof by a nationally recognized bond rating agency, or in an equivalent category based on any subsequent redefinition (without reference to any modifiers within a category).

(7) Any repurchase agreement or similar financial transaction with a national banking association or a bank or trust company organized under the laws of any state (including the Trustee), or with a primary reporting dealer in United States government securities to the Federal Reserve Bank of New York, or with a securities broker-dealer licensed pursuant to Minnesota statutes, chapter 80A, or an affiliate of it, regulated by the Securities Exchange Commission and maintaining a combined capital and surplus of \$40,000,000 or more, exclusive of subordinated debt, which agreement is secured by any one or more of the securities described in clauses (1) through (4) inclusive.

(8) Shares of (i) an investment company registered under the federal investment company act of 1940, whose shares are registered under the federal securities act of 1933, whose only investments are in securities described in clauses (1), (2), (3) and (7) above and which has an investment policy of maintaining a stable \$1.00 unit price or (ii) a common trust fund established by a national banking association or a bank or trust company organized under the laws of any state with combined capital and surplus of at least \$50,000,000, under the supervision and regulation of the Comptroller of the Currency pursuant to 12 C.F.R. 9, or any successor regulation, whose only investments are in securities described in clauses (1), (2), (3) and (7) above and which has an investment policy of maintaining a stable \$1.00 unit price.

*Mortgage:* A mortgage deed, deed of trust, or other instrument securing a Mortgage Loan and constituting a first lien on a Home.

*Mortgage Lender:* Any of the following institutions making or holding a Mortgage Loan, whether for its own account or as agent of the Agency: (i) any bank, savings bank, mutual savings bank, savings and loan

association, or building and loan association organized under the laws of Minnesota or the United States, and any mortgagee or lender approved or certified by the Secretary of Housing and Urban Development or by the Administrator of Veterans Affairs; or (ii) any agency or instrumentality of the United States or the State, or a political subdivision of the State.

*Mortgage Loan:* An interest-bearing loan to a Mortgagor secured by a Mortgage on a Home, and evidenced by a promissory note or a security payable from or evidencing an interest in such Mortgage Loans.

*Operating Expense Requirement:* The amount at any time directed by an Officer's Certificate to be deposited in the Expense Fund under a schedule approved by the Agency for each Fiscal Year, as such schedule shall be amended from time to time, for the payment or reimbursement of certain fees and expenses in connection with the Program as set forth in the Bond Resolution.

*Prepayment:* Any money received as payment of principal on a Mortgage Loan in excess of the scheduled payments of principal then due.

*Private Mortgage Insurer:* A company qualified to provide insurance on mortgage loans purchased by the Federal Home Loan Mortgage Corporation or the Federal National Mortgage Association, or any other agency or instrumentality of the United States to which the powers of either of them have been transferred, or which has similar powers to purchase mortgage loans.

*Program:* The Agency's program of making or purchasing Qualified Mortgage Loans, including the payment when due of principal of and redemption premium, if any, and interest on Bonds.

*Projected Revenue Certificate:* An Officer's Certificate setting forth, as of any particular date:

(1) A schedule of estimated Revenues available in the current and each future Fiscal Year for the payment of interest and Principal Installments or Redemption Prices of Bonds, giving effect to:

(i) Scheduled payments of principal and interest on Mortgage Loans then held in the Acquisition Fund, except Defaulted Mortgage Loans, and on any Mortgage Loans expected to be made or purchased from cash or Investments then held in the Acquisition Fund; assuming that such additional Mortgage Loans bear interest at stated rates and commence amortization on one or more stated dates, and that the scheduled payments of principal and interest on Mortgage Loans assumed to be prepaid pursuant to clause (ii) terminate on their assumed prepayment dates, respectively.

(ii) Assumed dates and amounts of Prepayments of any of said Mortgage Loans (which may vary from the Prepayments assumed in establishing the Principal Installment Dates of the Series of Bonds from the proceeds of which the respective Mortgage Loans were made or purchased).

(iii) Payments of principal and interest on Mortgage Loans, if any, anticipated to be made or purchased from Prepayments and other Revenues received from time to time in excess of amounts required for transfers and debt service payments estimated pursuant to clauses (2) and (3) below.

(iv) The amount, if any, expected to be paid to the Agency on any future date for the purchase of Mortgage Loans originally made or purchased in whole or in part from the proceeds of any Series of Bonds, under a mortgage purchase agreement entered into by the Agency with the Minnesota State Board of Investment or any other entity, at a price equal to a specified percentage of the unpaid balance of the Mortgage Loans which will result from the scheduled payments and Prepayments predicted pursuant to clauses (i) and (ii).

(v) Income receivable from the deposit and investment of amounts from time to time held in all Funds pledged to the payment of the Bonds, except interest on Mortgage Loans.

(vi) Amounts, if any, other than income, which may be transferred to the Revenue Fund or the Bond Fund from any other Fund created by or pursuant to the Bond Resolution, without drawing the Expense Fund, the Debt Service Reserve Fund or the Insurance Reserve Fund below their respective Requirements, and which are not expected to be transferred to the General Reserve Account pursuant to clause (5) under the caption "Revenue Fund" below.

(2) A schedule of amounts, if any, required to be transferred in the current and each future Fiscal Year to the Expense Fund, the Debt Service Reserve Fund and the Insurance Reserve Fund for the purpose of accumulating and maintaining the Operating Expense, Debt Service Reserve and Insurance Reserve Requirements.

(3) A schedule of interest and Principal Installments or Redemption Prices due and payable with respect to all Outstanding Bonds in the current and each future Fiscal Year, consistent with the dates and prices at which and the amounts in which Bonds may and are assumed to be called for redemption in accordance with their terms.

(4) The amount, if any, by which Revenues estimated pursuant to clause (1) to be available in the current and each Fiscal Year exceed fund transfers and debt service payments estimated pursuant to clauses (2) and (3) to be required in the same Fiscal Year.

*Qualified Mortgage Loan:* A Mortgage Loan satisfying the conditions set forth under the caption “Qualification of Mortgage Loans,” or a security payable from or evidencing an interest in Mortgage Loans each satisfying such conditions.

*Revenues:* All scheduled payments of principal of and interest on the Mortgage Loans, net of Service Charges (whether paid by or on behalf of the Mortgagor); all prepayments, payments by mortgage insurers, and proceeds of the sale of Mortgage Loans; all income and gain, net of losses, from the investment and reinvestment of Bond proceeds and Revenues; all payments received by the Agency under any mortgage purchase agreement entered into with the State Board of Investment or another entity; and all other payments, proceeds, rents, charges and other cash income derived by or for the account of the Agency from or related to the Program, without limitation of the foregoing except that the following shall not be included in Revenues: (i) Escrow Payments, (ii) Service Charges, (iii) Fees, unless otherwise specified in a Series Resolution with respect to all or part thereof, or (iv) amounts from time to time held in the General Reserve Account, including Series Arbitrage Reserves.

*Series Arbitrage Reserve:* A special subaccount created by a Series Resolution within the General Reserve Account of the Agency for the purpose of compliance with applicable federal law.

## **Acquisition Fund**

The Trustee shall use the amount credited to each Series Account in the Acquisition Fund to pay the Costs of Issuance of the related Series of Bonds, to make or purchase Qualified Mortgage Loans, and to reimburse the Agency for payments made by it from other funds for these purposes.

As to each Mortgage Loan, the Trustee shall receive an Officer’s Certificate stating:

(1) the loan number assigned to it by the Agency, the names of the Mortgagor and the Servicer and the date and amount of disbursement to be made therefor; and

(2) that the Mortgage Loan is Qualified.

All interest and other income received from the deposit and investment of money in each Series Account in the Acquisition Fund and all scheduled payments and prepayments received on Mortgage Loans held therein shall be transferred by the Trustee as received to the Revenue Fund.

Any amount of proceeds of a Series of Bonds remaining in the Acquisition Fund, three years after the Issue Date of that Series, or at such earlier time as may be provided in the applicable Series Resolution, shall be transferred by the Trustee to the related Series Account in the Redemption Fund unless otherwise directed by an Officer’s Certificate.

Any amount in the Acquisition Fund required for the payment of Principal Installments of and interest on Bonds shall be transferred to the Bond Fund if necessary in case of a deficiency.

## **Qualification of Mortgage Loans**

At the time of acquisition by the Agency, among other requirements, the unpaid principal amount of the Mortgage Loan shall not exceed 75 percent of the Market Value of the Home subject to the Mortgage, unless the Mortgage Loan is to be insured, secured or guaranteed in one of the following ways: (a) if the Mortgage Loan is to be insured or guaranteed by the Federal Housing Administration or Veterans Administration, or any other agency or instrumentality of the United States to which the powers of either of them have been transferred, or which has similar powers to insure or guarantee Mortgage Loans, the amount may be the maximum permitted under the regulation of such agency or instrumentality; provided that any Mortgage Loan made by the Agency shall be endorsed for insurance or guaranty before a disbursement of Bond proceeds is made thereon, and all mortgage purchase agreements entered into with Mortgage Lenders shall require the Mortgage Lender to repurchase the Mortgage Loan if a final endorsement for insurance or guaranty is not received within 60 days, (b) if the Agency is issued a mortgage insurance policy by a Private Mortgage Insurer before making or purchasing the Mortgage Loan, under which the insurer must either (i) pay a claim after foreclosure and receipt of title to the Home, equal to the entire unpaid principal, accrued interest and expenses of foreclosure of the Mortgage Loan, or (ii) if it requests the Agency to retain title, may pay only a specified insured percentage of the claim, then the maximum amount of the Mortgage Loan shall be a percentage of the Market Value equal to 75 percent plus the insured percentage, or (c) if the Mortgage Loan is not initially insured in the manner set forth in either (a) or (b) above, the Agency shall either (i) transmit to the Trustee for deposit into the appropriate Insurance Reserve Fund an amount equal to the difference between the amount of the uninsured Mortgage Loan and 75 percent of the Market Value, or (ii) shall certify to the Trustee that the balance then existing in the appropriate Insurance Reserve Fund is not less than the amount required by this clause (c) to be on deposit therein.

The Agency shall enter into a Servicing Agreement with respect to each Mortgage Loan unless it determines to service the Mortgage itself.

## **Assistance Payments**

The Agency reserves the right to transfer any amount from its General Reserve Account or other legally available funds to the Trustee for credit to the Bond Fund in payment and satisfaction of a corresponding amount of the scheduled principal or interest payments on any Mortgage Loan, or to advance such money to cure or avert a default on any Mortgage Loan. The Agency shall be entitled to recover from the Mortgagor any amounts so advanced, together with interest thereon at the rate payable on the Mortgage Loan, or to enforce its right to such recovery under the Mortgage, but only after all other defaults thereunder have been cured.

## **Deposit Revenues**

The Agency will collect and deposit or will cause Servicers to collect and deposit with the Trustee or with Depositories in the name of the Trustee, as soon after receipt as practicable, all Revenues derived from Mortgage Loans, including Defaulted Mortgage Loans, and the Trustee shall credit all such receipts to the Revenue Fund, together with all Revenues derived from Investments held in all Funds.

## **Revenue Fund**

On or before each Interest Payment Date and each Principal Installment Date the Trustee shall withdraw from any money in the Revenue Fund and credit to each of the following Funds the amount indicated in the following tabulation, or so much thereof as remains after first crediting the amount indicated to each Fund preceding it:

- (1) To the Expense Fund, the amount, if any, needed to increase the balance therein to the Operating Expense Requirement.
- (2) To the Bond Fund the amount needed to increase the balance therein to the Bond Requirement.
- (3) To the Debt Service Reserve Fund, the amount, if any, needed to increase the amount therein to the Debt Service Reserve Requirement.



(4) To the Insurance Reserve Fund the amount, if any, needed to increase the amount therein to the Insurance Reserve Requirement.

(5) The remainder shall be held in the Revenue Fund until and unless directed by an Officer's Certificate to be transferred (i) to the Acquisition Fund, (ii) to the Redemption Fund, or (iii) as provided in the following two paragraphs.

If the net Investment earnings received in any Series Account in the Revenue Fund exceed at any time the earnings permitted under applicable federal law to be retained, the excess amount shall be paid over to the United States at the times and in the manner provided in the applicable Series Resolution and applicable federal law. Such excess amount may be transferred to a Series Arbitrage Reserve in the General Reserve Account at such times and in such amounts as may be required to assure compliance with applicable federal law, notwithstanding the requirements of other Funds as set forth in the preceding paragraph.

Upon submission of the Projected Revenue Certificate as of July 1 in each year, the Agency may by an Officer's Certificate direct the transfer to the General Reserve Account, free and clear of any lien or pledge created by the Bond Resolution, of an amount which is not required to produce estimated Revenues equal to debt service and required Fund transfers in the current and all future Fiscal Years as set forth in the Projected Revenue Certificate, provided that, subsequent to such transfer, total assets held under the Bond Resolution, exclusive of amounts on deposit in the Insurance Reserve Fund, exceed total liabilities by at least 3 percent.

### **Expense Fund**

Money deposited in the Expense Fund shall be applied to the payment of:

(1) Fees and disbursements of the Trustee and other Fiduciaries.

(2) The cost of mortgage pool insurance, special hazard insurance, mortgage purchase commitments, letters of credit, review and analysis of Mortgage Loans and servicing and other security and services under contracts entered into by the Agency for the purpose of assuring the sufficiency of Revenues for debt service.

(3) Costs of foreclosure, sale, taxes, hazard insurance, appraisals, legal fees, maintenance, repairs and other expenses incurred or to be incurred by the Agency to protect its interest as mortgagee of Homes as established by an Officer's Certificate.

(4) Such amount as may be determined by the Agency to be necessary to pay its administrative expenses directly related to the Program, not exceeding the annual amount estimated to be available for this purpose in the most recent Projected Revenue Certificate.

### **Bond Fund**

The Trustee shall withdraw money from the Bond Fund prior to each Interest Payment Date and Principal Installment Date for the payment of interest on and principal of the Bonds. Money in the Bond Fund for the payment of Sinking Fund Installments shall be applied to the purchase or mandatory redemption of Bonds. No such money may be used to purchase Bonds less than 25 days prior to the Sinking Fund Installment date, or at a price higher than the then applicable Redemption Price.

Any amount in the Bond Fund in excess of the Bond Requirement shall be credited by the Trustee to the Revenue Fund.

### **Debt Service Reserve Fund**

If at any time there shall not be a sufficient amount in the Bond Fund to make payment of Principal Installments of or interest on the Bonds, the Trustee shall withdraw from the Debt Service Reserve Fund and pay into the Bond Fund the amount of the deficiency. Money in the Debt Service Reserve Fund in excess of the Debt Service Reserve Requirement may be withdrawn and credited to the Revenue Fund.

The Agency shall at all times maintain the Debt Service Reserve Fund and do and perform or cause to be done and performed each and every act and thing with respect to the Debt Service Reserve Fund provided to be done or performed by or on behalf of the Agency or the Trustee under the terms and provisions of the Bond Resolution and the Act.

The Agency shall cause the Chairman annually, on or before each December 1, to make and deliver to the Governor of the State his certificate stating the sum, if any, that is necessary to restore the Debt Service Reserve Fund to an amount equal to the Debt Service Reserve Requirement.

### **Insurance Reserve Fund**

The Insurance Reserve Requirement, if any, received by the Trustee upon the issuance of a Series of Bonds shall be held in the Insurance Reserve Fund and used for the purpose of paying that portion of the claim for loss with respect to any Defaulted Mortgage Loan, made or purchased from the Acquisition Fund, which is not paid by any public or private insuring agency. The Agency shall promptly furnish to the Trustee an Officer's Certificate stating the amount of the loss, when determinable, and the Trustee shall forthwith transfer this amount to the extent available from the Insurance Reserve Fund to the Revenue Fund. Money in excess of the Insurance Reserve Requirement is to be withdrawn on Principal Installment Dates and credited to the Revenue Fund. If at any time the amount in the Insurance Reserve Fund is less than the Insurance Reserve Requirement, and is not restored from available Revenues in accordance with the Bond Resolution, or available funds in the General Reserve Account supplied by the Agency, upon notice, the deficiency shall be supplied by the Trustee by the transfer of funds available from the following sources in the following order of priority:

- (1) from the Expense Fund;
- (2) from any amount in the Acquisition Fund in excess of Loan commitments; or
- (3) from the Redemption Fund.

### **Redemption Fund**

Money in the Redemption Fund may be used to purchase Bonds or to redeem Bonds at the Redemption Prices set forth in Series Resolutions.

Interest and other income derived from the investment or deposit of money in the Redemption Fund shall be transferred to the Revenue Fund as received. Other amounts in the Redemption Fund may be retransferred to the Acquisition Fund for the making or purchase of Qualified Mortgage Loans when directed by an Officer's Certificate.

### **Investment of Funds**

Subject to instructions from time to time received from an Authorized Officer and with the objective of assuring the maximum yield reasonably possible on money held in each Fund within the limitations set forth in applicable federal law, each Fiduciary shall keep all money held by it invested and reinvested, as continuously as reasonably possible, in qualified Investments. All Investments shall mature (or be redeemable at the option of the holder) and bear interest payable at the times and in the amounts estimated to be necessary to provide funds for Mortgage Loan disbursements and for the payment of the principal of and interest and premium, if any, on Bonds when due or when scheduled for redemption pursuant to applicable Series Resolutions.

Money in separate Funds may be commingled for the purpose of investment or deposit, subject to instructions from an Authorized Officer, to the extent possible in conformity with the provisions described in the preceding paragraph. Moneys held in separate Funds or Series Accounts may be invested in common trust funds or pools of which such money forms a part pursuant to the terms of which each Fund or Series Account is allocated a share of a pooled security proportionate to the amount contributed to the purchase price of the pooled security, subject to the provisions of the immediately preceding paragraph and to the restrictions on Investments imposed by each Series Resolution. However, Investments of amounts held in Series Accounts established by each Series Resolution shall be segregated from Investments of amounts held in other Series Accounts, to the extent required by the Series Resolution for compliance with applicable federal law. Investments shall be sold at the best price obtainable, and amounts held in certificates of deposit or time deposits shall be withdrawn, whenever necessary, in

order to make any disbursement for the purchase of Mortgage Loans, payment of expenses or debt service. Investments need not be disposed of to make required transfers from one Fund or account to another, but one or more investments or portions thereof may be transferred in lieu of cash.

Except as otherwise provided below, all Funds of the Agency held by a Fiduciary or another financial institution in time deposits or under certificates of deposit shall be continuously secured by the pledge and assignment to the Agency and the Trustee of Investments of classes (1) through (5), inclusive, as defined above.

The requirement in the preceding paragraph shall not apply to the following:

- (1) Funds held by a Paying Agent in trust for the payment of particular Bonds or interest.
- (2) Funds held by a Fiduciary less than three working days pending investment or disbursement.
- (3) Any amount insured by the Federal Deposit Insurance Corporation.
- (4) Amounts held by a Fiduciary in uninvested trust accounts pending investment in accordance with the first paragraph of this section.
- (5) Certificates of deposit or time deposits qualified as Investments under the provisions of subparagraph (6) of the definition thereof set forth above.

Subject to approval by an Authorized Officer, the Trustee or another Fiduciary may apply money pertaining to any Fund created by or pursuant to the Bond Resolution to the purchase of Investments owned by it in its individual capacity, and may sell to itself in its individual capacity Investments held by it in any such Fund as such Fiduciary.

#### **Amendments**

Amendments of the Resolutions may be made by a Supplemental Resolution.

Supplemental Resolutions may become effective upon filing with the Trustee if they add restrictions on the Agency, add covenants by the Agency, surrender privileges of the Agency, authorize Additional Bonds and fix the terms thereof or affect only Bonds not yet issued.

Supplemental Resolutions become effective upon consent of the Trustee if they concern only curing or clarifying an ambiguity, omission, defect or inconsistency.

Other Supplemental Resolutions may become effective only with consent of the Holders of at least 66-2/3 percent in principal amount of the outstanding Bonds affected thereby.

However, no amendment shall permit a change in the terms of redemption or maturity of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount thereof or the Redemption Price thereof or the rate of interest thereon without the consent of the Holder of such Bond, or shall reduce the percentage of the Holders the consent of which is required to effect any such amendment.

Any amendment may be made with unanimous consent of the Bondholders, except that no amendment shall change any of the rights or obligations of any fiduciary without the consent of that Fiduciary.

#### **Defeasance**

Bonds, the payment or redemption for which moneys shall have been deposited with the Trustee, shall be deemed to have been paid, provided that, if any such Bonds are to be redeemed prior to the maturity thereof, provision satisfactory to the Trustee shall have been made for the giving of notice of redemption thereof. Moneys so held by the Trustee shall be invested by the Trustee, as directed by the Agency, in Investments. Alternatively, if the maturing principal of Investments (not redeemable at the option of the issuer and which are described in clauses (i) or (ii) of the definition of "Investments" above) deposited with the Trustee and the interest to fall due thereon are at least equal the amount of money required for the payment on any future date of the interest on or principal of or Redemption Price on such Bonds, the Bonds shall be deemed to have been paid and shall no longer be considered Outstanding under the Bond Resolution.

## **Events of Default**

Each of the following shall constitute an event of default under the Bond Resolution: (1) interest on any of the Bonds shall become due on any date and shall not be paid on said date, or the principal or Redemption Price of any of the Bonds shall become due on any date, whether at maturity or upon call for redemption and shall not be paid on said date; or (2) Bonds subject to redemption by operation of Sinking Fund Installments shall not have been redeemed and paid in the amount required in the applicable Series Resolution on any date; or (3) a default shall be made in the observance or performance of any covenant, contract or other provision in the Bonds, the Bond Resolution or the applicable Series Resolution contained and such default shall continue for a period of 90 days after written notice to the Agency from a Bondholder or from the Trustee specifying such default and requiring the same to be remedied; or (4) certain acts of bankruptcy, insolvency or reorganization by or against the Agency.

## **Remedies**

Upon the happening and continuance of an event of default, the Trustee may, and shall upon the written request of the Holders of 25 percent of the Outstanding Bonds affected by an event of default described in clause (1) or (2) of "Events of Default" above, or 25 percent of all Outstanding Bonds if the event of default is one described in clause (3) or (4) of "Events of Default" above, proceed to protect the rights of the Bondholders under the laws of the State of Minnesota or under the Bond Resolution. No Bondholder shall have the right to institute any proceedings for any remedy under the Resolutions unless the Trustee, after being so requested to institute such proceedings and offered satisfactory indemnity, shall have refused or neglected to comply with such request within a reasonable time and unless the proceeding is brought for the ratable benefit of all Holders of all Bonds. However, nothing in the Resolutions contained shall affect or impair the right of any Bondholder to enforce the payment of the principal of and interest on such Bondholder's Bond.

**MORTGAGE INSURANCE PROGRAMS AND  
STATE LAWS AFFECTING FORECLOSURES**

**Federal Housing Administration Single-Family  
Mortgage Insurance Programs**

The National Housing Act of 1934, as amended, authorizes various Federal Housing Administration (the “FHA”) mortgage insurance programs, which differ in some respects depending primarily upon whether the mortgaged premises contain five or more dwelling units or less than five such units.

The regulations governing all of the FHA programs under which the mortgage loans may be insured provide that insurance benefits are payable either upon foreclosure (or other acquisition of possession) and conveyance of the Home to the Department of Housing and Urban Development (“HUD”) or upon assignment of the defaulted mortgage loan to HUD. With respect to the assignment of mortgaged premises containing less than five dwelling units to HUD, mortgagees must first make a determination as to whether or not the default is caused by a circumstance or set of circumstances beyond the mortgagor’s control, which temporarily renders the family financially unable to cure the delinquency within a reasonable time or make full mortgage payments. If a determination is made that the default is caused by such circumstances, HUD must be requested to accept assignment and must have rejected the request for the mortgagee to initiate foreclosure proceedings. Assignments of mortgaged premises containing five or more dwelling units is at the option of the mortgage lender, but HUD may decrease the insurance payment if the mortgage lender chooses to assign such a mortgage by an amount equal to 1% of the unpaid principal amount of the mortgage loan.

Under some of the FHA insurance programs, insurance claims are paid by HUD in cash, unless the mortgage holder specifically requests in debentures issued by HUD. Under others, HUD has the option, at its discretion, to pay insurance claims in cash or in such debentures. The current HUD policy, subject to change at any time, is to make insurance payments on single-family mortgage loans in cash, with respect to all programs covering such units as to which it has discretion to determine the form of insurance payment.

HUD debentures issued in satisfaction of FHA insurance claims bear interest at the HUD debenture interest rate in effect under HUD regulations on the date of the mortgage insurance commitment or of the initial insurance endorsement of the mortgage, whichever rate is higher. The HUD debenture interest rates applicable to the FHA insured mortgages which the Agency has acquired or committed to acquire are in all cases lower than the interest rates of such mortgages.

When entitlement to insurance benefits results from foreclosure (or other acquisition of possession) and conveyance, the insurance payment is computed as of the date of institution of foreclosure proceedings or acquisition of the property. The mortgage holder generally is not compensated for mortgage interest accrued and unpaid prior to that date. Under such circumstances, the amount of insurance benefits generally paid by FHA is equal to the unpaid principal amount of the mortgage loan, adjusted to reimburse the mortgagee for certain tax, insurance and similar payments made by it and to deduct certain amounts received or retained by the mortgagee after default, plus reimbursement not to exceed 2/3 of the mortgagee’s foreclosure costs. When entitlement to insurance benefits results from assignment of the Mortgage Loan to HUD, the insurance payment is computed as of the date of the assignment and includes full compensation for mortgage interest accrued and unpaid to the assignment date. The regulations under all insurance programs described above provide that the insurance payment itself shall bear interest from the date of default, or, where applicable, the date of assignment, to the date of payment of the claim at the same interest rate as the applicable HUD debenture interest rate determined in the manner set forth above.

When any property to be conveyed to HUD or subject to a mortgage to be assigned to HUD has been damaged by fire, earthquake, flood or tornado, or, if the property has suffered damage because of failure of the mortgage holder to take action to inspect and preserve the property, it is generally required, as a condition to payment of an insurance claim, that such property be repaired by the mortgage holder prior to such conveyance or assignment. For mortgages insured on or after April 19, 1992, if the property has been damaged during the mortgage holder’s possession by events other than fire, flood, earthquake or tornado notwithstanding reasonable action by the mortgage holder, HUD may require the mortgage holder to repair the property prior to conveyance to HUD as a condition to payment of an insurance claim.

## **Veterans Administration Guaranty Program**

The Serviceman's Readjustment Act of 1944, as amended, permits a veteran (or, in certain instances, his or her spouse) to obtain a mortgage loan guaranteed by the Veterans Administration (the "VA") covering mortgage financing of the purchase of a one-to-four family dwelling unit at interest rates agreed upon by the purchaser and the mortgagee, as the VA may elect. The program has no mortgage loan limits (other than that the amount may not exceed the property's reasonable value as determined by the VA), requires no down payment from the purchaser and permits the guaranty of mortgage loans with terms of up to 30 years. The guaranty provisions for mortgage loans are as follows: (a) for home and condominium loans of \$45,000 or less, 50% of the loan is guaranteed (for loans with an original principal balance of \$45,000 and not more than \$56,250, the guaranty will not exceed \$22,500); (b) for home and condominium loans of more than \$56,250 but less than or equal to \$144,000, 40% of the loan is guaranteed subject to a maximum guaranty of \$36,000; (c) for home and condominium loans of more than \$144,000, 25% of the principal amount of the loan is guaranteed subject to a maximum guarantee of \$50,750; and (d) for loans for manufactured homes, 40% of the loan is guaranteed (with a maximum guaranty of \$20,000). The liability on the guaranty is reduced or increased pro rata with any reduction or increase in the amount of the indebtedness, but in no event will the amount payable on the guaranty exceed the amount of the original guaranty. Notwithstanding the dollar and percentage limitations of the guaranty, a mortgage holder will ordinarily suffer a monetary loss only where the difference between the unsatisfied indebtedness and the proceeds of a foreclosure sale of a mortgaged premises is greater than the original guaranty as adjusted. The VA may, at its option and without regard to the guaranty, make full payment to a mortgage holder of unsatisfied indebtedness on a mortgage upon its assignment to the VA.

## **Rural Development (RD) Insured Program**

Loans insured by Rural Development ("RD") may be made to purchase new or existing homes in designated rural areas. Eligible rural areas have a population not in excess of 10,000 persons or if located outside a Metropolitan Statistical Area, not in excess of 25,000. Loans may be made up to 100% of the market value of the property or 100% of the acquisition cost, whichever is less. The maximum loan amount is the applicable FHA maximum loan amount. The interest rate of these 30 year mortgages may not exceed the higher of the current VA rate or the Federal National Mortgage Association's ("FNMA") required net yield for 90 day commitments on a 30 year fixed-rate mortgage with actual/actual remittance plus 60 basis points. RD covers all losses on foreclosed loans up to 35% of the original principal. Any loss in excess of this amount carries an 85% guarantee. It is the present administrative policy of the Agency to tender a claim to RD within 60 days of the date of acquisition of the property through foreclosure. The Agency retains title to the property and may apply the insurance proceeds and any sale proceeds to the outstanding debt.

## **Private Mortgage Insurance Programs**

In accordance with the Bond Resolution, all Qualified Mortgages insured by a private mortgage insurance company shall be in any amount not exceeding the Market Value of the Home, provided that the Agency is issued a mortgage insurance policy under which the minimum insured percentage of any claim filed is at least equal to that percentage of the Market Value or sale price of the Home, whichever is less, by which the original principal amount of the mortgage exceeds 75% of such Market Value. Each private mortgage insurer insuring such Qualified Mortgages must be qualified to insure mortgages purchased by FNMA or the Federal Home Loan Mortgage Corporation ("FHLMC"). Both FNMA and FHLMC require approval of private mortgage insurance companies before mortgages insured by those companies are eligible for purchase by them.

Among the considerations taken into account by FNMA in determining whether to approve a private mortgage insurer are the following: (a) experienced mortgage insurers are expected to have policyholders' surplus of not less than \$5 million; (b) it is preferred that an insurer's principal insurance activity relate to loss resulting from nonpayment of mortgages and deeds of trust on residential structures, with total liability not in excess of 25 times its policyholders' surplus; (c) a private mortgage insurer must demonstrate that it possesses the technical expertise necessary to properly evaluate property and credit; and (d) an insurer must expressly consent to and comply with FNMA's requirements for audit and reports concerning changes in personnel, financial structure, qualifications, and rates.

FHLMC eligibility requirements for approving private mortgage insurers presently provide that (a) not more than 10% of an insurer's mortgage insurance risk may be represented by mortgage insurance covering property other than real property improved by a building or buildings designed for occupancy by one to four families and

(b) an insurer shall not insure mortgages secured by properties in a single housing tract or contiguous tracts where the insurance risk applicable thereto is in excess of 10% of its policyholders' surplus (net of reinsurance); (c) no insurer shall have more than 20% of its total insurance in force in any one Standard Metropolitan Statistical Area nor may any combination of insurance in force in any one state exceed 60% of its total insurance in force; and (d) an insurer shall limit its insurance risk with respect to each insured to the maximum permitted under state law.

FHLMC also requires the private mortgage insurer to meet the following financial requirements: (a) policyholders' surplus must be maintained at not less than \$5 million; (b) an insurer shall maintain an unearned premium reserve computed on a monthly pro rata basis; if a greater unearned premium reserve is required by the state where the insurer is licensed, then such greater requirement shall be met; (c) an insurer shall establish and maintain a contingency reserve in an amount equal to 50% of earned premiums; (d) an insurer shall maintain a loss reserve for claims incurred but not reported, including estimated losses on insured mortgages which have resulted in the conveyance of property which remains unsold, mortgages in the process of foreclosure or mortgages in default for four or more months; (e) an insurer shall maintain no less than 85% of its total admitted assets in the form of marketable securities or other highly liquid investments which qualify as insurance company investments under the laws and regulations of the state of its domicile and the standards of the National Association of Insurance Commissioners; and (f) an insurer shall not at any time have total insurance risk outstanding in excess of 25 times its policyholders' surplus. Approved private mortgage insurers must file quarterly and annual reports with the FHLMC.

It is the present administrative policy of the Agency to require that any private mortgage insurance policy with respect to a Qualified Mortgage to be purchased with the proceeds of the Series Bonds contain provisions substantially as follows: (a) the private mortgage insurer must pay a claim, including unpaid principal, accrued interest and certain expenses, within sixty days of presentation of the claim by the mortgage lender; (b) for a mortgage lender to present a claim, the mortgage lender must have acquired, and tendered to the insurer, title to the property, free and clear of all liens and encumbrances, including any right of redemption by the mortgagor; (c) when a claim is presented, the insurer will have the option of paying the claim in full, taking title to the property and arranging for its sale, or of paying the insured percentage of the claim (either 20 or 25%, depending on the coverage purchased by the mortgage lender) and allowing the insured lender to retain title to the property.

The foregoing description of certain mortgage insurance programs is only a brief outline and does not purport to summarize or describe all of the provisions of these programs. For a more complete description of the terms of these programs, reference is made to the provisions of the insurance and guaranty contracts embodied in regulations of the FHA, RD and the VA, respectively, and of the regulations, master insurance contracts and other such information of the various private mortgage insurers. Mortgage Loans purchased by the Agency are not limited by the Resolutions to the foregoing programs and it is possible that insurance benefits under other Federal or private programs in which the Agency may participate could be more or less favorable.

### **Insurance Reserve Fund**

For a description of the Insurance Reserve Fund, see "Summary of Certain Provisions of the Bond Resolution" in Appendix C.

### **State Laws Affecting Foreclosures**

Mortgage foreclosures in Minnesota are governed by statute and permit two alternative methods, "by action" or "by advertisement." The latter is normally utilized since it is slightly faster, less expensive, and does not have the same tendency to invite contest as does foreclosure by action. The process is normally initiated by the publication, recordation and service of a notice of foreclosure. This notice must include all relevant information on the mortgage loan and the secured premises as well as a statement of the time and place of sale and the time allowed by law for redemption by the mortgagor. This notice must then be published in a legal newspaper each week for six consecutive weeks. Service of the notice on the mortgagor and any other affected party must be completed at least four weeks prior to the designated date of the foreclosure sale. Compliance with the above publication and service of notice requirements within the prescribed time limitations is essential to the validity of the mortgage foreclosure sale.

Prior to the foreclosure sale, the mortgagor has the right to reinstate the mortgage and prevent foreclosure by curing all defaults on a current basis and by paying attorneys' fees and out-of-pocket disbursements to the extent permitted by statute. If the mortgage is not reinstated, the foreclosure sale is held in the sheriff's office in the county

in which the real estate being foreclosed is located. Although anyone can bid at a foreclosure sale, the normal result of the foreclosure sale is that the lender bids in the debt without competing bidders (and under the Bond Resolution, the Agency is required to do so), and purchases the mortgaged property from the defaulting borrower through the sheriff, subject to the rights of the borrower and subsequent creditors to redeem.

The holding of such foreclosure sale starts the period of redemption. The period of redemption will normally be six months but can be as long as twelve months. During the period of redemption the mortgagor normally retains the right to remain in possession of the mortgaged property without making mortgage payments or paying real estate taxes. During the period of redemption, the mortgagor has the right to pay off the entire indebtedness, including full principal, accrued interest, any amounts reasonably paid by the mortgagee to preserve the security, and attorneys' fees and disbursements to the extent allowed by statute.

After the period of redemption expires, the mortgagee is entitled to possession of the premises, but may have to bring an unlawful detainer proceeding to enforce its possessory rights, and a proceeding subsequent in the case of Torrens property to perfect its title to the mortgaged property.

It is not unusual, therefore, for a mortgagee to be delayed 10 months or more from the date of initiation of the mortgage foreclosure proceeding until it realizes its possessory rights.



**BOOK-ENTRY-ONLY SYSTEM****Book-Entry-Only System**

The Depository Trust Company, New York, New York (“DTC”), is to act as securities depository for each series of the Series Bonds. The ownership of one fully registered Series Bond of each series for each maturity in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., DTC’s partnership nominee. *So long as Cede & Co. is the Registered Owner of the Series Bonds of a series, as nominee of DTC, references herein to the Bondholders, Holders or Registered Owners of such Series Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of such Series Bonds.*

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its direct participants (the “Direct Participants”) deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic, computerized book-entry changes in Direct Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the “Indirect Participants”).

Beneficial ownership interests in the Series Bonds must be purchased by or through Direct Participants, which are to receive a credit for the Series Bonds on the records of DTC. The ownership interest of each actual purchaser of each Series Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive confirmation from DTC of their purchases, but Beneficial Owners are expected to receive written confirmations providing details of their transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which the Beneficial Owners entered into the transactions. Beneficial Owners of Series Bonds will not receive certificates representing their beneficial ownership interests in such Bonds, unless use of the book-entry only system is discontinued as described below.

Transfers of ownership interests in the Series Bonds are to be accomplished by book entries made by DTC and in turn by the Direct Participants and Indirect Participants who act on behalf of the Beneficial Owners of such Bonds. To facilitate subsequent transfers, all Series Bonds deposited by DTC Participants are registered in the name of DTC’s partnership nominee, Cede & Co. The deposit of Series Bonds with DTC and the registration of such Bonds in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The DTC Participants will remain responsible for keeping account of their holdings on behalf of their customers. For every transfer and exchange of beneficial ownership in the Series Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

Conveyances of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Series Bonds of a series and maturity are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such Bonds of such maturity to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Series Bonds. Under its usual procedures, DTC mails an omnibus proxy to the Trustee as soon as possible after the record date. The omnibus proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts the Series Bonds are credited on the record date (identified in a listing to be attached to the omnibus proxy).

Under the Series Resolutions, payments made by or on behalf of the Agency to DTC or its nominee shall satisfy the Agency's obligations under the Resolutions to the extent of the payments so made.

Principal, redemption price and interest payments on the Series Bonds are to be made by the Trustee to DTC or to its nominee, such payments to the Beneficial Owners will be solely the responsibility of DTC, the Direct Participants and, where appropriate, Indirect Participants. DTC's current practice is to credit Direct Participant's accounts on the payment date in accordance with their respective holdings shown on the records of DTC, unless DTC has reason to believe that it will not receive payment on the payment date. Payments by Direct Participants and Indirect Participants to Beneficial Owners will be governed by standing instructions of the Beneficial Owner and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in "street name." Such payments will be the sole responsibility of such Direct Participant or Indirect Participant and not of DTC, the Agency or the Trustee, subject to any statutory and regulatory requirements as may be in effect from time to time.

The above information contained in this section "Book-Entry-Only System" is based solely on information provided by DTC. No representation is made by the Agency or the Underwriters as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

*The Agency, the Underwriters and the Trustee cannot and do not give any assurances that DTC, the Direct Participants or the Indirect Participants will distribute to the Beneficial Owners of the Series Bonds (i) payments of principal of or interest and premium, if any, on the Series Bonds, (ii) certificates representing an ownership interest or other confirmation of beneficial ownership interest in Series Bonds, or (iii) redemption or other notices sent to DTC or Cede & Co., its nominee, as the Registered Owner of the Series Bonds, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission, and the current "Procedures" of DTC to be followed in dealing with Direct Participants are on file with DTC.*

*Neither the Agency, the Underwriters nor the Trustee will have any responsibility or obligation to any Direct Participant, Indirect Participant or any Beneficial Owner or any other person with respect to: (1) the Series Bonds; (2) the accuracy of any records maintained by DTC or any Direct Participant or Indirect Participant; (3) the payment by DTC or any Direct Participant or Indirect Participant of any amount due to any Beneficial Owner in respect of the principal or redemption price of or interest on the Series Bonds; (4) the delivery by DTC or any Direct Participant or Indirect Participant of any notice to any Beneficial Owner which is required or permitted under the terms of the Resolutions to be given to owners of Series Bonds; (5) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Series Bonds; or (6) any consent given or other action taken by DTC as a Bondholder.*

#### **Discontinuation of Book-Entry System**

DTC may discontinue its book-entry services with respect to all or any series of the Series Bonds at any time by giving notice to the Agency and discharging its responsibilities with respect thereto under applicable law. Under such circumstances, such series of Series Bonds are required to be delivered as described in the Series Resolution. The Beneficial Owner, upon registration of such Series Bonds held in the Beneficial Owner's name, shall become the Bondowner.

The Agency may determine to discontinue the system of book-entry transfers through DTC (or a successor securities depository) for all or any series of the Series Bonds. In such event, the Series Bonds of such series are to be delivered as described in the Series Resolution.

**APPENDIX F**  
**OPINIONS OF BOND COUNSEL**

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SHANGHAI

[To be dated the date of remarketing of the Remarketed 2000 Series G Bonds]

Minnesota Housing Finance Agency  
St. Paul, Minnesota 55101

Re: Minnesota Housing Finance Agency  
Single Family Mortgage Bonds, 2000 Series G

Ladies and Gentlemen:

We have acted as bond counsel in connection with the remarketing by the Minnesota Housing Finance Agency (the "Agency") of its Single Family Mortgage Bonds, 2000 Series G, in the aggregate principal amount of \$39,990,000 (the "Remarketed 2000 Series G Bonds"), which are issuable only as fully registered bonds of single stated maturities in the principal amount of \$5,000 or any integral multiple thereof.

The Remarketed 2000 Series G Bonds are dated, mature on the dates, bear interest at the rates and are payable as set forth in the Supplemented Series Resolution referenced below. The Remarketed 2000 Series G Bonds are subject to optional and special redemption prior to maturity, including special redemption at par, and to mandatory tender for purchase at par, as provided in the Supplemented Series Resolution.

In this connection, we have examined certificates as to facts, estimates and circumstances and certified copies of resolutions and proceedings of the Agency and other documents considered necessary as the basis for this opinion, including the Agency's Bond Resolution adopted June 3, 1982, as amended, and the Series Resolution adopted July 27, 2000, as supplemented by a resolution adopted July 12, 2001 (the "Supplemented Series Resolution"). As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

Applicable federal tax law, including certain provisions of Sections 143 and 148 of the Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met subsequent to the delivery of the Remarketed 2000 Series G Bonds in order that interest on the Remarketed 2000 Series G Bonds may be excluded from gross income for federal income tax purposes. The Agency has covenanted in the Bond Resolution and Supplemented Series Resolution to comply with the requirements of applicable federal tax law and for such purpose to adopt and maintain appropriate procedures. In rendering this opinion, we have assumed compliance by the Agency with and enforcement by the Agency of the provisions of the Bond and Supplemented Series Resolutions.

From such examination it is our opinion that, under state and federal laws, regulations, rulings and decisions in effect on the date hereof: (1) the Agency is a public body corporate and politic, having no taxing power, duly organized and existing under Minnesota Statutes, Chapter 462A, as amended; (2) the Bond and Supplemented Series Resolutions have been duly and validly adopted by the Agency and are valid and binding upon it in accordance with their terms, and create the valid pledge and security interest they purport to create with respect

**DORSEY & WHITNEY LLP**

Minnesota Housing Finance Agency  
Page 2

to the Mortgage Loans, Revenues, moneys, securities and Funds held and to be set aside under the Bond and Supplemented Series Resolutions; (3) the Remarketed 2000 Series G Bonds are duly and lawfully authorized to be issued and are valid and binding general obligations of the Agency in accordance with their terms, entitled to the benefits granted by and secured by the covenants contained in the Bond and Supplemented Series Resolutions, and are further secured by the pledge of the full faith and credit of the Agency, and are payable out of any of its moneys, assets or revenues, subject to the provisions of other resolutions or indentures now or hereafter pledging and appropriating particular moneys, assets, or revenues to other bonds or notes, or state laws appropriating particular funds for a specified purpose, but the State of Minnesota is not liable thereon and the Remarketed 2000 Series G Bonds are not a debt of the State; (4) in the Bond Resolution the Agency has created a Debt Service Reserve Fund for the security of the Remarketed 2000 Series G Bonds and other bonds issued or to be issued under the Bond Resolution, to be maintained in an amount specified therein, and has agreed to certify annually to the Governor the sum, if any, necessary to restore the Fund to this amount for inclusion in the next budget submitted to the Legislature, and the Legislature is legally authorized, but is not legally obligated, to appropriate such amount to the Fund; and (5) the interest payable on the Remarketed 2000 Series G Bonds is not includable in gross income of owners thereof for federal income tax purposes or in taxable net income of individuals, trusts and estates for State of Minnesota income tax purposes, but such interest is includable in the income of corporations and financial institutions for purposes of the Minnesota franchise tax.

Interest on the Remarketed 2000 Series G Bonds will not be treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations, and in calculating the Minnesota alternative minimum tax imposed on individuals, trusts and estates, but will be included in the calculation of adjusted current earnings for purposes of calculating federal and State of Minnesota alternative minimum taxes imposed on corporations. We express no opinion regarding other federal or state tax consequences arising from ownership of the Remarketed 2000 Series G Bonds. All owners of Remarketed 2000 Series G Bonds (including, but not limited to, insurance companies, financial institutions, Subchapter S corporations, United States branches of foreign corporations and recipients of social security and railroad retirement benefits) should consult their tax advisors concerning other possible indirect tax consequences of owning and disposing the Remarketed 2000 Series G Bonds.

The opinions expressed above are qualified only to the extent that the enforceability of the Remarketed 2000 Series G Bonds and the Bond and Supplemented Series Resolutions may be limited by general principles of equity and by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting enforcement of creditor's rights heretofore or hereafter enacted.

Dated: \_\_\_\_\_, 2001.

Respectfully yours,

# DORSEY & WHITNEY LLP

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[To be dated the date of remarketing of the Remarketed 2000 Series H Bonds]

Minnesota Housing Finance Agency  
St. Paul, Minnesota 55101

Re: Minnesota Housing Finance Agency  
Single Family Mortgage Bonds, 2000 Series H

Ladies and Gentlemen:

We have acted as bond counsel in connection with the remarketing by the Minnesota Housing Finance Agency (the "Agency") of its Single Family Mortgage Bonds, 2000 Series H, in the aggregate principal amount of \$32,475,000 (the "Remarketed 2000 Series H Bonds"), which are issuable only as fully registered bonds of single stated maturities in the principal amount of \$5,000 or any integral multiple thereof.

The Remarketed 2000 Series H Bonds are dated, mature on the dates, bear interest at the rates and are payable as set forth in the Supplemented Series Resolution referenced below. The Remarketed 2000 Series H Bonds are subject to optional and special redemption prior to maturity, including special redemption at par, and to mandatory tender for purchase at par, as provided in the Supplemented Series Resolution.

In this connection, we have examined certificates as to facts, estimates and circumstances and certified copies of resolutions and proceedings of the Agency and other documents considered necessary as the basis for this opinion, including the Agency's Bond Resolution adopted June 3, 1982, as amended, and the Series Resolution adopted July 27, 2000, as supplemented by a resolution adopted July 12, 2001 (the "Supplemented Series Resolution"). As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

Applicable federal tax law, including certain provisions of Sections 143 and 148 of the Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met subsequent to the delivery of the Remarketed 2000 Series H Bonds in order that interest on the Remarketed 2000 Series H Bonds may be excluded from gross income for federal income tax purposes. The Agency has covenanted in the Bond Resolution and Supplemented Series Resolution to comply with the requirements of applicable federal tax law and for such purpose to adopt and maintain appropriate procedures. In rendering this opinion, we have assumed compliance by the Agency with and enforcement by the Agency of the provisions of the Bond and Supplemented Series Resolutions.

**DORSEY & WHITNEY LLP**

Minnesota Housing Finance Agency

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From such examination it is our opinion that, under state and federal laws, regulations, rulings and decisions in effect on the date hereof: (1) the Agency is a public body corporate and politic, having no taxing power, duly organized and existing under Minnesota Statutes, Chapter 462A, as amended; (2) the Bond and Supplemented Series Resolutions have been duly and validly adopted by the Agency and are valid and binding upon it in accordance with their terms, and create the valid pledge and security interest they purport to create with respect to the Mortgage Loans, Revenues, moneys, securities and Funds held and to be set aside under the Bond and Supplemented Series Resolutions; (3) the Remarketed 2000 Series H Bonds are duly and lawfully authorized to be issued and are valid and binding general obligations of the Agency in accordance with their terms, entitled to the benefits granted by and secured by the covenants contained in the Bond and Supplemented Series Resolutions, and are further secured by the pledge of the full faith and credit of the Agency, and are payable out of any of its moneys, assets or revenues, subject to the provisions of other resolutions or indentures now or hereafter pledging and appropriating particular moneys, assets, or revenues to other bonds or notes, or state laws appropriating particular funds for a specified purpose, but the State of Minnesota is not liable thereon and the Remarketed 2000 Series H Bonds are not a debt of the State; (4) in the Bond Resolution the Agency has created a Debt Service Reserve Fund for the security of the Remarketed 2000 Series H Bonds and other bonds issued or to be issued under the Bond Resolution, to be maintained in an amount specified therein, and has agreed to certify annually to the Governor the sum, if any, necessary to restore the Fund to this amount for inclusion in the next budget submitted to the Legislature, and the Legislature is legally authorized, but is not legally obligated, to appropriate such amount to the Fund; and (5) the interest payable on the Remarketed 2000 Series H Bonds is not includable in gross income of owners thereof for federal income tax purposes or in taxable net income of individuals, trusts and estates for State of Minnesota income tax purposes, but such interest is includable in the income of corporations and financial institutions for purposes of the Minnesota franchise tax.

Interest on the Remarketed 2000 Series H Bonds will be treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations, and in calculating the Minnesota alternative minimum tax imposed on individuals, trusts and estates. We express no opinion regarding other federal or state tax consequences arising from the ownership or disposition of the Remarketed 2000 Series H Bonds. All owners of Remarketed 2000 Series H Bonds (including, but not limited to, insurance companies, financial institutions, Subchapter S corporations, United States branches of foreign corporations and recipients of social security and railroad retirement benefits) should consult their tax advisors concerning other possible indirect tax consequences of owning and disposing of the Remarketed 2000 Series H Bonds.

The opinions expressed above are qualified only to the extent that the enforceability of the Remarketed 2000 Series H Bonds and the Bond and Supplemented Series Resolutions may be limited by general principles of equity and by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting enforcement of creditor's rights heretofore or hereafter enacted.

Dated: \_\_\_\_\_, 2001.

Respectfully yours

# DORSEY & WHITNEY LLP

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[To be dated the date of issuance of the 2001 Series E Bonds]

Minnesota Housing Finance Agency  
St. Paul, Minnesota 55101

Re: Minnesota Housing Finance Agency  
Single Family Mortgage Bonds, 2001 Series E

Ladies and Gentlemen:

We have acted as bond counsel in connection with the authorization, issuance and delivery by the Minnesota Housing Finance Agency (the "Agency") of its Single Family Mortgage Bonds, 2001 Series E, in the aggregate principal amount of \$59,405,000 (the "2001 Series E Bonds"), which are issuable only as fully registered bonds in the principal amount of \$5,000 or any integral multiple thereof.

The 2001 Series E Bonds are dated, mature on the dates, bear interest at the rates and are payable as set forth in the Series Resolution referenced below. The 2001 Series E Bonds are subject to optional and special redemption prior to maturity, including special redemption at par, and to mandatory tender for purchase at par, as provided in the Series Resolution.

In this connection, we have examined certificates as to facts, estimates and circumstances and certified copies of resolutions and proceedings of the Agency and other documents considered necessary as the basis for this opinion, including the Agency's Bond Resolution adopted June 3, 1982, as amended, and the Series Resolution adopted July 12, 2001. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

Applicable federal tax law, including certain provisions of Sections 143 and 148 of the Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met subsequent to the delivery of the 2001 Series E Bonds in order that interest on the 2001 Series E Bonds may be excluded from gross income for federal income tax purposes. The Agency has covenanted in the Bond Resolution and Series Resolution to comply with the requirements of applicable federal tax law and for such purpose to adopt and maintain appropriate procedures. In rendering this opinion, we have assumed compliance by the Agency with and enforcement by the Agency of the provisions of the Bond and Series Resolutions.

From such examination it is our opinion that, under state and federal laws, regulations, rulings and decisions in effect on the date hereof: (1) the Agency is a public body corporate and politic, having no taxing power, duly organized and existing under Minnesota Statutes, Chapter 462A, as amended; (2) the Bond and Series Resolutions have been duly and validly adopted by the Agency and are valid and binding upon it in accordance with



**DORSEY & WHITNEY LLP**

Minnesota Housing Finance Agency  
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their terms, and create the valid pledge and security interest they purport to create with respect to the Mortgage Loans, Revenues, moneys, securities and Funds held and to be set aside under the Bond and Series Resolutions; (3) the 2001 Series E Bonds are duly and lawfully authorized to be issued and are valid and binding general obligations of the Agency in accordance with their terms, entitled to the benefits granted by and secured by the covenants contained in the Bond and Series Resolutions, and are further secured by the pledge of the full faith and credit of the Agency, and are payable out of any of its moneys, assets or revenues, subject to the provisions of other resolutions or indentures now or hereafter pledging and appropriating particular moneys, assets, or revenues to other bonds or notes, or state laws appropriating particular funds for a specified purpose, but the State of Minnesota is not liable thereon and the 2001 Series E Bonds are not a debt of the State; (4) in the Bond Resolution the Agency has created a Debt Service Reserve Fund for the security of the 2001 Series E Bonds and other bonds issued or to be issued under the Bond Resolution, to be maintained in an amount specified therein, and has agreed to certify annually to the Governor the sum, if any, necessary to restore the Fund to this amount for inclusion in the next budget submitted to the Legislature, and the Legislature is legally authorized, but is not legally obligated, to appropriate such amount to the Fund; and (5) the interest payable on the 2001 Series E Bonds is not includable in gross income of owners thereof for federal income tax purposes or in taxable net income of individuals, trusts and estates for State of Minnesota income tax purposes, but such interest is includable in the income of corporations and financial institutions for purposes of the Minnesota franchise tax.

Interest on the 2001 Series E Bonds will be treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations, and in calculating the Minnesota alternative minimum tax imposed on individuals, trusts and estates. We express no opinion regarding other federal or state tax consequences arising from the ownership or disposition of the 2001 Series E Bonds. All owners of 2001 Series E Bonds (including, but not limited to, insurance companies, financial institutions, Subchapter S corporations, United States branches of foreign corporations and recipients of social security and railroad retirement benefits) should consult their tax advisors concerning other possible indirect tax consequences of owning and disposing of the 2001 Series E Bonds.

The opinions expressed above are qualified only to the extent that the enforceability of the 2001 Series E Bonds and the Bond and Series Resolutions may be limited by general principles of equity and by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting enforcement of creditor's rights heretofore or hereafter enacted.

Dated: \_\_\_\_\_, 2001.

Respectfully yours,